

Principal Financial Statements



FINANCIAL STATEMENTS

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I.

Environmental Protection Agency
Consolidating Balance Sheet

As of September 30, 2004 and 2003

(Dollars in Thousands)

	Superfund Trust Fund FY 2004	Superfund Trust Fund FY 2003	All Others FY 2004	All Others FY 2003	Combined Totals FY 2004
ASSETS					
Intragovernmental					
Fund Balance With Treasury (Note 2)	\$ 199,406	\$ 26,448	\$ 11,865,739	\$ 11,758,357	\$ 12,065,145
Investments (Notes 4 and 17)	2,217,334	2,516,147	2,317,164	2,114,684	4,534,498
Accounts Receivable, Net (Note 5)	27,212	34,665	89,267	119,941	116,479
Other (Note 6)	<u>6,781</u>	<u>7,414</u>	<u>1,288</u>	<u>3,827</u>	<u>8,069</u>
Total Intragovernmental	\$ 2,450,733	\$ 2,584,674	\$ 14,273,458	\$ 13,996,809	\$ 16,724,191
Cash and Other Monetary Assets (Note 3)	0	0	10	10	10
Accounts Receivable, Net (Note 5)	369,148	428,486	45,347	65,296	414,495
Loans Receivable, Net—Non-Federal (Note 7)	0	0	48,927	53,506	48,927
Property, Plant and Equipment, Net (Note 9)	47,821	45,855	625,542	579,471	673,363
Other (Note 6)	<u>699</u>	<u>680</u>	<u>809</u>	<u>3,502</u>	<u>1,508</u>
Total Assets	\$ 2,868,401	\$ 3,059,695	\$ 14,994,093	\$ 14,698,594	\$ 17,862,494
LIABILITIES					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	\$ 140,781	\$ 145,631	\$ 37,592	\$ 70,156	\$ 178,373
Debt Due to Treasury (Note 10)	0	0	24,101	21,189	24,101
Custodial Liability (Note 11)	0	0	52,216	78,776	52,216
Other (Note 12)	<u>37,752</u>	<u>30,600</u>	<u>47,118</u>	<u>21,611</u>	<u>84,870</u>
Total Intragovernmental	\$ 178,533	\$ 176,231	\$ 161,027	\$ 191,732	\$ 339,560
Accounts Payable and Accrued Liabilities (Note 8)	145,369	165,550	736,482	722,784	881,851
Pensions and Other Actuarial Liabilities (Note 14)	7,263	7,937	33,018	36,159	40,281
Environmental Cleanup Costs (Note 20)	0	0	8,407	8,880	8,407
Cashout Advances, Superfund (Note 15)	259,361	279,092	0	0	259,361
Commitments and Contingencies (Note 18)	0	0	1,625	18	1,625
Payroll and Benefits Payable (Note 33)	31,695	31,039	149,051	142,791	180,746
Other (Notes 12 and 13)	<u>46,211</u>	<u>49,809</u>	<u>57,705</u>	<u>53,105</u>	<u>103,916</u>
Total Liabilities	\$ 668,432	\$ 709,658	\$ 1,147,315	\$ 1,155,469	\$ 1,815,747
NET POSITION					
Unexpended Appropriations (Note 16)	\$ 0	\$ 0	\$ 10,860,136	\$ 10,768,236	\$ 10,860,136
Cumulative Results of Operations (Note 36)	<u>2,199,969</u>	<u>2,350,037</u>	<u>2,986,642</u>	<u>2,774,889</u>	<u>5,186,611</u>
Total Net Position	<u>2,199,969</u>	<u>2,350,037</u>	<u>13,846,778</u>	<u>13,543,125</u>	<u>16,046,747</u>
Total Liabilities and Net Position	\$ 2,868,401	\$ 3,059,695	\$ 14,994,093	\$ 14,698,594	\$ 17,862,494

The accompanying notes are an integral part of these statements.

I.
Environmental Protection Agency
Consolidating Balance Sheet (continued)
As of September 30, 2004 and 2003
(Dollars in Thousands)

	Combined Totals FY 2003	Intra-agency Elimination FY 2004	Intra-agency Elimination FY 2003	Consolidated Totals FY 2004	Consolidated Totals FY 2003
ASSETS					
Intragovernmental					
Fund Balance With Treasury (Note 2)	\$ 11,784,805	\$ 0	\$ 0	\$ 12,065,145	\$ 11,784,805
Investments (Notes 4 and 17)	4,630,831	0	0	4,534,498	4,630,831
Accounts Receivable, Net (Note 5)	154,606	(73,709)	(89,789)	42,770	64,817
Other (Note 6)	<u>11,241</u>	<u>(6,749)</u>	<u>(7,269)</u>	<u>1,320</u>	<u>3,972</u>
Total Intragovernmental	\$ 16,581,483	\$ (80,458)	\$ (97,058)	\$ 16,643,733	\$ 16,484,425
Cash and Other Monetary Assets (Note 3)	10	0	0	10	10
Accounts Receivable, Net (Note 5)	493,782	0	0	414,495	493,782
Loans Receivable, Net—Non-Federal (Note 7)	53,506	0	0	48,927	53,506
Property, Plant and Equipment, Net (Note 9)	625,326	0	0	673,363	625,326
Other (Note 6)	<u>4,182</u>	<u>0</u>	<u>0</u>	<u>1,508</u>	<u>4,182</u>
Total Assets	\$ <u>17,758,289</u>	\$ <u>(80,458)</u>	\$ <u>(97,058)</u>	\$ <u>17,782,036</u>	\$ <u>17,661,231</u>
LIABILITIES					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	\$ 215,787	\$ (73,709)	\$ (89,789)	\$ 104,664	\$ 125,998
Debt Due to Treasury (Note 10)	21,189	0	0	24,101	21,189
Custodial Liability (Note 11)	78,776	0	0	52,216	78,776
Other (Note 12)	<u>52,211</u>	<u>(6,749)</u>	<u>(7,269)</u>	<u>78,121</u>	<u>44,942</u>
Total Intragovernmental	\$ 367,963	\$ (80,458)	\$ (97,058)	\$ 259,102	\$ 270,905
Accounts Payable and Accrued Liabilities (Note 8)	888,334	0	0	881,851	888,334
Pensions and Other Actuarial Liabilities (Note 14)	44,096	0	0	40,281	44,096
Environmental Cleanup Costs (Note 20)	8,880	0	0	8,407	8,880
Cashout Advances, Superfund (Note 15)	279,092	0	0	259,361	279,092
Commitments and Contingencies (Note 18)	18	0	0	1,625	18
Payroll and Benefits Payable (Note 33)	173,830	0	0	180,746	173,830
Other (Notes 12 and 13)	<u>102,914</u>	<u>0</u>	<u>0</u>	<u>103,916</u>	<u>102,914</u>
Total Liabilities	\$ <u>1,865,127</u>	\$ <u>(80,458)</u>	\$ <u>(97,058)</u>	\$ <u>1,735,289</u>	\$ <u>1,768,069</u>
NET POSITION					
Unexpended Appropriations (Note 16)	\$ 10,768,236	\$ 0	\$ 0	\$ 10,860,136	\$ 10,768,236
Cumulative Results of Operations (Note 36)	<u>5,124,926</u>	<u>0</u>	<u>0</u>	<u>5,186,611</u>	<u>5,124,926</u>
Total Net Position	<u>15,893,162</u>	<u>0</u>	<u>0</u>	<u>16,046,747</u>	<u>15,893,162</u>
Total Liabilities and Net Position	\$ <u>17,758,289</u>	\$ <u>(80,458)</u>	\$ <u>(97,058)</u>	\$ <u>17,782,036</u>	\$ <u>17,661,231</u>

The accompanying notes are an integral part of these statements.

2.

Environmental Protection Agency
Consolidating Statement of Net Cost
 For the Years Ended September 30, 2004 and 2003
 (Dollars in Thousands)

	Superfund Trust Fund FY 2004	Superfund Trust Fund FY 2003	All Others FY 2004	All Others FY 2003	Combined Totals FY 2004
COSTS					
Intragovernmental	\$ 368,045	\$ 341,817	\$ 860,314	\$ 816,624	\$ 1,228,359
With the Public	1,262,540	1,246,427	6,387,327	6,427,497	7,649,867
Expenses from Other Appropriations (Note 23)	<u>82,776</u>	<u>75,597</u>	<u>(82,776)</u>	<u>(75,597)</u>	<u>0</u>
Total Costs	\$ 1,713,361	\$ 1,663,841	\$ 7,164,865	\$ 7,168,524	\$ 8,878,226
Less:					
Earned Revenues, Federal (Note 19)	27,450	\$ 16,682	\$ 61,475	\$ 124,233	\$ 88,925
Earned Revenues, Non-Federal (Note 19)	<u>233,171</u>	<u>394,295</u>	<u>46,928</u>	<u>31,304</u>	<u>280,099</u>
Total Earned Revenues (Note 19)	\$ <u>260,621</u>	<u>410,977</u>	<u>108,403</u>	<u>155,537</u>	<u>369,024</u>
NET COST OF OPERATIONS	\$ <u>1,452,740</u>	\$ <u>1,252,864</u>	\$ <u>7,056,462</u>	\$ <u>7,012,987</u>	\$ <u>8,509,202</u>

2.

Environmental Protection Agency
Consolidating Statement of Net Cost *(continued)*
 For the Years Ended September 30, 2004 and 2003
 (Dollars in Thousands)

	Combined Totals FY 2003	Intra-agency Eliminations FY 2004	Intra-agency Eliminations FY 2003	Consolidated Totals FY 2004	Consolidated Totals FY 2003
COSTS					
Intragovernmental	\$ 1,158,441	\$ (22,663)	\$ (20,240)	\$ 1,205,696	\$ 1,138,201
With the Public	7,673,924	0	0	7,649,867	7,673,924
Expenses from Other Appropriations (Note 23)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Costs	\$ 8,832,365	\$ (22,663)	\$ (20,240)	\$ 8,855,563	\$ 8,812,125
Less:					
Earned Revenues, Federal (Note 19)	140,915	\$ (22,663)	\$ (20,240)	\$ 66,262	\$ 120,675
Earned Revenues, Non-Federal (Note 19)	<u>425,599</u>	<u>0</u>	<u>0</u>	<u>280,099</u>	<u>425,599</u>
Total Earned Revenues (Note 19)	\$ <u>566,514</u>	<u>(22,663)</u>	<u>(20,240)</u>	<u>346,361</u>	<u>546,274</u>
NET COST OF OPERATIONS	\$ <u>8,265,851</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>8,509,202</u>	\$ <u>8,265,851</u>

3.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal*
For the Year Ended September 30, 2004
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance and Environmental Stewardship
COSTS					
Intragovernmental	\$ 168,684	\$ 177,573	\$ 411,593	\$ 257,208	\$ 159,492
With the Public	<u>774,151</u>	<u>3,835,046</u>	<u>1,610,080</u>	<u>885,982</u>	<u>557,567</u>
Total Costs	\$ 942,835	\$ 4,012,619	\$ 2,021,673	\$ 1,143,190	\$ 717,059
Less:					
Earned Revenue, Federal	21,092	\$ 6,320	\$ 19,877	\$ 7,117	\$ 13,857
Earned Revenue, Non-Federal	<u>970</u>	<u>1,996</u>	<u>227,936</u>	<u>33,556</u>	<u>1,498</u>
Total Earned Revenue	\$ <u>22,062</u>	<u>8,316</u>	\$ <u>247,813</u>	\$ <u>40,673</u>	\$ <u>15,355</u>
NET COST OF OPERATIONS	\$ <u>920,773</u>	\$ <u>4,004,303</u>	\$ <u>1,773,860</u>	\$ <u>1,102,517</u>	\$ <u>701,704</u>

3.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal*
For the Year Ended September 30, 2003
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
COSTS						
Intragovernmental	\$ 84,961	\$ 139,303	\$ 31,028	\$ 54,492	\$ 409,312	\$ 35,643
With the Public	<u>532,480</u>	<u>3,817,701</u>	<u>97,848</u>	<u>281,634</u>	<u>1,581,550</u>	<u>219,692</u>
Total Costs	\$ 617,441	\$ 3,957,004	\$ 128,876	\$ 336,126	\$ 1,990,862	\$ 255,335
Less:						
Earned Revenue, Federal	3,234	\$ 5,394	\$ 37	\$ 1,197	\$ 80,029	\$ 3,911
Earned Revenue, Non-Federal	<u>71</u>	<u>1,876</u>	<u>20,729</u>	<u>300</u>	<u>396,738</u>	<u>1,652</u>
Total Earned Revenue	\$ 3,305	\$ 7,270	\$ 20,766	\$ 1,497	\$ 476,767	\$ 5,563
Management Cost Allocation	<u>55,231</u>	<u>83,892</u>	<u>24,379</u>	<u>36,784</u>	<u>136,240</u>	<u>15,031</u>
NET COST OF OPERATIONS	\$ <u>669,367</u>	\$ <u>4,033,626</u>	\$ <u>132,489</u>	\$ <u>371,413</u>	\$ <u>1,650,335</u>	\$ <u>264,803</u>

* The agency implemented a 5-goal strategic plan structure for FY 2004 costs. FY 2003 costs are presented in the former 10-goal structure.

The accompanying notes are an integral part of these statements.

3.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal*
 For the Year Ended September 30, 2004
 (Dollars in Thousands)

	Not Assigned to Goals**	Consolidated Total
COSTS		
Intragovernmental	\$ 31,146	\$ 1,205,696
With the Public	<u>(12,959)</u>	<u>7,649,867</u>
Total Costs	\$ 18,187	\$ 8,855,563
Less:		
Earned Revenue, Federal	(2,001)	\$ 66,262
Earned Revenue, Non-Federal	<u>14,143</u>	<u>280,099</u>
Total Earned Revenue	\$ <u>12,142</u>	\$ <u>346,361</u>
NET COST OF OPERATIONS	\$ <u>6,045</u>	\$ <u>8,509,202</u>

3.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal*
 For the Year Ended September 30, 2003
 (Dollars in Thousands)

	Environ. Information	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals**	Consolidated Total
COSTS						
Intragovernmental	\$ 174,224	\$ 51,118	\$ 93,695	\$ 40,751	\$ 23,674	\$ 1,138,201
With the Public	<u>191,351</u>	<u>293,552</u>	<u>325,968</u>	<u>343,036</u>	<u>(10,888)</u>	<u>7,673,924</u>
Total Costs	\$ 365,575	\$ 344,670	\$ 419,663	\$ 383,787	\$ 12,786	\$ 8,812,125
Less:						
Earned Revenue, Federal	126,261	\$ 1,198	\$ 272	\$ (100,428)	\$ (430)	\$ 120,675
Earned Revenue, Non-Federal	<u>121</u>	<u>364</u>	<u>1,220</u>	<u>1,367</u>	<u>1,161</u>	<u>425,599</u>
Total Earned Revenue	\$ 126,382	\$ 1,562	\$ 1,492	\$ (99,061)	\$ 731	\$ 546,274
Management Cost Allocation	<u>26,018</u>	<u>28,766</u>	<u>76,507</u>	<u>(482,848)</u>	<u>0</u>	<u>0</u>
NET COST OF OPERATIONS	\$ <u>265,211</u>	\$ <u>371,874</u>	\$ <u>494,678</u>	\$ <u>0</u>	\$ <u>12,055</u>	\$ <u>8,265,851</u>

* The agency implemented a 5-goal strategic plan structure for FY 2004 costs. FY 2003 costs are presented in the former 10-goal structure.

** See Note 30.

The accompanying notes are an integral part of these statements.

4.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Years Ended September 30, 2004 and 2003
(Dollars in Thousands)

	Cumulative Results of Operations Superfund Trust Fund FY 2004	Cumulative Results of Operations Superfund Trust Fund FY 2003	Cumulative Results of Operations All Others FY 2004	Cumulative Results of Operations All Others FY 2003	Cumulative Results of Operations Consolidated Totals FY 2004*
Net Position—Beginning of Period	\$ 2,350,037	\$ 3,115,737	\$ 2,774,889	\$ 2,518,705	\$ 5,124,926
Prior Period Adjustments	0	0	0	0	0
Beginning Balances, as Adjusted	\$ 2,350,037	\$ 3,115,737	\$ 2,774,889	\$ 2,518,705	\$ 5,124,926
Budgetary Financing Sources:					
Appropriations Received	0	0	0	0	0
Appropriations Transferred In/Out (Note 31)	0	0	0	0	0
Other Adjustments (Note 34)	0	0	0	0	0
Appropriations Used	0	0	8,162,544	7,496,463	8,162,544
Nonexchange Revenue (Note 35)	30,239	(49,692)	269,486	260,515	299,725
Transfers In/Out (Note 31)	(87,586)	(191,131)	67,779	111,614	(19,807)
Trust Fund Appropriations	1,257,537	632,307	(1,257,537)	(632,307)	0
Income from Other Appropriations (Note 23)	82,776	75,597	(82,776)	(75,597)	0
Total Budgetary Financing Sources	\$ 1,282,966	\$ 467,081	\$ 7,159,496	\$ 7,160,688	\$ 8,442,462
Other Financing Sources:					
Transfers In/Out (Note 31)	(1)	84	(435)	287	(436)
Imputed Financing Sources (Note 32)	19,707	19,999	109,154	108,196	128,861
Total Other Financing Sources	\$ 19,706	\$ 20,083	\$ 108,719	\$ 108,483	\$ 128,425
Net Cost of Operations	(1,452,740)	(1,252,864)	(7,056,462)	(7,012,987)	(8,509,202)
Net Position—End of Period	\$ 2,199,969	\$ 2,350,037	\$ 2,986,642	\$ 2,774,889	\$ 5,186,611

* This statement does not have any intra-agency eliminations for FY 2004 or 2003.

4.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position *(continued)*
For the Years Ended September 30, 2004 and 2003
(Dollars in Thousands)

	Cumulative Results of Operations Consolidated Totals FY 2003*	Unexpended Appropriations All Others FY 2004	Unexpended Appropriations All Others FY 2003	Consolidated Totals FY 2004*	Consolidated Totals FY 2003*
Net Position—Beginning of Period	\$ 5,634,442	\$ 10,768,236	\$ 10,923,889	\$ 15,893,162	\$ 16,558,331
Prior Period Adjustments	0	0	0	0	0
Beginning Balances, as Adjusted	\$ 5,634,442	\$ 10,768,236	\$ 10,923,889	\$ 15,893,162	\$ 16,558,331
Budgetary Financing Sources:					
Appropriations Received	0	8,322,860	7,408,126	8,322,860	7,408,126
Appropriations Transferred In/Out (Note 31)	0	152	4,550	152	4,550
Other Adjustments (Note 34)	0	(68,568)	(71,866)	(68,568)	(71,866)
Appropriations Used	7,496,463	(8,162,544)	(7,496,463)	0	0
Nonexchange Revenue (Note 35)	210,823	0	0	299,725	210,823
Transfers In/Out (Note 31)	(79,517)	0	0	(19,807)	(79,517)
Trust Fund Appropriations	0	0	0	0	0
Income from Other Appropriations (Note 23)	0	0	0	0	0
Total Budgetary Financing Sources	\$ 7,627,769	\$ 91,900	\$ (155,653)	\$ 8,534,362	\$ 7,472,116
Other Financing Sources:					
Transfers In/Out (Note 31)	371	0	0	(436)	371
Imputed Financing Sources (Note 32)	128,195	0	0	128,861	128,195
Total Other Financing Sources	\$ 128,566	\$ 0	\$ 0	\$ 128,425	\$ 128,566
Net Cost of Operations	(8,265,851)	0	0	(8,509,202)	(8,265,851)
Net Position—End of Period	<u>\$ 5,124,926</u>	<u>\$ 10,860,136</u>	<u>\$ 10,768,236</u>	<u>\$ 16,046,747</u>	<u>\$ 15,893,162</u>

* This statement does not have any intra-agency eliminations for FY 2004 or 2003.

5.

Environmental Protection Agency
Combined Statement of Budgetary Resources
 For the Years Ended September 30, 2004 and 2003
 (Dollars in Thousands)

	Superfund Trust Fund FY 2004	Superfund Trust Fund FY 2003	All Others FY 2004
BUDGETARY RESOURCES			
Budgetary Authority:			
Appropriations Received	\$ 0	\$ 0	\$ 8,353,924
Borrowing Authority	0	0	5,554
Net Transfers	1,259,096	1,286,342	77,690
Unobligated Balances:			
Beginning of Period	766,805	750,994	2,098,872
Net Transfers, Actual	0	0	(1,538)
Spending Authority from Offsetting Collections:			
Earned and Collected	229,658	\$ 211,066	\$ 242,119
Receivable from Federal Sources	(7,853)	(1,728)	(15,303)
Change in Unfilled Customer Orders:			
Advance Received	(44,218)	(41,608)	13,011
Without Advance from Federal Sources	5,978	5,259	1,310
Transfers from Trust Funds	0	(9,642)	51,666
Total Spending Authority from Collections	\$ 183,565	\$ 163,347	\$ 292,803
Recoveries of Prior Year Obligations (Note 26)	98,848	124,797	95,927
Temporarily Not Available Pursuant to Public Law (Note 26)	(7,464)	0	(790)
Permanently Not Available (Note 26)	0	(8,274)	(71,203)
Total Budgetary Resources (Note 25)	\$ 2,300,850	\$ 2,317,206	\$ 10,851,239
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:			
Direct	\$ 1,328,864	\$ 1,373,144	\$ 8,416,742
Reimbursable	148,273	177,257	261,502
Total Obligations Incurred (Note 25)	\$ 1,477,137	\$ 1,550,401	\$ 8,678,244
Unobligated Balances:			
Apportioned (Note 27)	823,694	766,786	2,080,155
Unobligated Balances Not Available (Note 27)	19	19	92,840
Total Status of Budgetary Resources	\$ 2,300,850	\$ 2,317,206	\$ 10,851,239
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligations Incurred, Net	\$ 1,194,724	\$ 1,262,257	\$ 8,289,514
Obligated Balances, Net—Beginning of Period	1,838,503	2,021,759	9,582,216
Accounts Receivable	(5,886)	1,965	86,440
Unfilled Customer Orders from Federal Sources	77,685	71,707	226,184
Undelivered Orders, Unpaid	(1,374,232)	(1,612,994)	(9,093,405)
Accounts Payable	(266,926)	(299,181)	(857,634)
Total Outlays (Note 25)	\$ 1,463,868	\$ 1,445,513	\$ 8,233,315
Disbursements	\$ 1,649,308	\$ 1,605,329	\$ 8,556,405
Collections	(185,440)	(159,816)	(323,090)
Less: Offsetting Receipts (Note 28)	(74,063)	(146,502)	(1,276,778)
Net Outlays	\$ 1,389,805	\$ 1,299,011	\$ 6,956,537

The accompanying notes are an integral part of these statements.

5.

Environmental Protection Agency
Combined Statement of Budgetary Resources *(continued)*
 For the Years Ended September 30, 2004 and 2003
 (Dollars in Thousands)

	All Others FY 2003	Combined Totals FY 2004	Combined Totals FY 2003
BUDGETARY RESOURCES			
Budgetary Authority:			
Appropriations Received	\$ 7,424,350	\$ 8,353,924	\$ 7,424,350
Borrowing Authority	0	5,554	0
Net Transfers	76,863	1,336,786	1,363,205
Unobligated Balances:			
Beginning of Period	2,045,248	2,865,677	2,796,242
Net Transfers, Actual	0	(1,538)	0
Spending Authority from Offsetting Collections:			
Earned and Collected	273,703	\$ 471,777	\$ 484,769
Receivable from Federal Sources	5,074	(23,156)	3,346
Change in Unfilled Customer Orders:			0
Advance Received	(20,362)	(31,207)	(61,970)
Without Advance from Federal Sources	(28,473)	7,288	(23,214)
Transfers from Trust Funds	96,135	51,666	86,493
Total Spending Authority from Collections	\$ 326,077	\$ 476,368	\$ 489,424
Recoveries of Prior Year Obligations (Note 26)	114,437	194,775	239,234
Temporarily Not Available Pursuant to Public Law (Note 26)	0	(8,254)	0
Permanently Not Available (Note 26)	(76,182)	(71,203)	(84,456)
Total Budgetary Resources (Note 25)	\$ 9,910,793	\$ 13,152,089	\$ 12,227,999
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:			
Direct	\$ 7,539,595	\$ 9,745,606	\$ 8,912,739
Reimbursable	272,326	409,775	449,583
Total Obligations Incurred (Note 25)	\$ 7,811,921	\$ 10,155,381	\$ 9,362,322
Unobligated Balances:			
Apportioned (Note 27)	2,011,471	2,903,849	2,778,257
Unobligated Balances Not Available (Note 27)	87,401	92,859	87,420
Total Status of Budgetary Resources	\$ 9,910,793	\$ 13,152,089	\$ 12,227,999
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligations Incurred, Net	\$ 7,371,407	\$ 9,484,238	\$ 8,633,664
Obligated Balances, Net—Beginning of Period	9,608,652	11,420,719	11,630,411
Accounts Receivable	118,037	80,554	120,002
Unfilled Customer Orders from Federal Sources	224,874	303,869	296,581
Undelivered Orders, Unpaid	(9,077,583)	(10,467,637)	(10,690,577)
Accounts Payable	(847,544)	(1,124,560)	(1,146,725)
Total Outlays (Note 25)	\$ 7,397,843	\$ 9,697,183	\$ 8,843,356
Disbursements	\$ 7,706,933	\$ 10,205,713	\$ 9,312,262
Collections	(309,090)	(508,530)	(468,906)
Less: Offsetting Receipts (Note 28)	(643,956)	(1,350,841)	(790,458)
Net Outlays	\$ 6,753,887	\$ 8,346,342	\$ 8,052,898

The accompanying notes are an integral part of these statements.

6.

Environmental Protection Agency
Consolidating Statement of Financing
For the Years Ended September 30, 2004 and 2003
(Dollars in Thousands)

	Superfund Trust Fund FY 2004	Superfund Trust Fund FY 2003	All Others FY 2004
RESOURCES USED TO FINANCE ACTIVITIES:			
Budgetary Resources Obligated			
Obligations Incurred	\$ 1,477,137	\$ 1,550,401	\$ 8,678,244
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(282,413)</u>	<u>(288,144)</u>	<u>(388,730)</u>
Obligations, Net of Offsetting Collections	\$ 1,194,724	\$ 1,262,257	\$ 8,289,514
Less: Offsetting Receipts (Note 28)	<u>(74,063)</u>	<u>(146,502)</u>	<u>(1,276,778)</u>
Net Obligations	\$ 1,120,661	\$ 1,115,755	\$ 7,012,736
Other Resources			
Transfers In/Out without Reimbursement, Property (Note 31)	\$ (1)	\$ 84	\$ 1
Imputed Financing Sources (Note 32)	19,707	19,999	109,154
Income from Other Appropriations (Note 23)	<u>82,776</u>	<u>75,597</u>	<u>(82,776)</u>
Net Other Resources Used to Finance Activities	\$ 102,482	\$ 95,680	\$ 26,379
Total Resources Used To Finance Activities	\$ 1,223,143	\$ 1,211,435	\$ 7,039,115
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS			
Change in Budgetary Resources Obligated	\$ 199,979	\$ 179,096	\$ (7,108)
Resources that Fund Prior Period Expenses (Note 29)	(2,243)	0	(11,612)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:			
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances	0	0	4,142
Offsetting Receipts Not Affecting Net Cost	74,063	146,502	19,241
Resources that Finance Asset Acquisition	(16,104)	(16,287)	(90,081)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost	<u>(51,666)</u>	<u>(105,777)</u>	<u>51,666</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 204,029	\$ 203,534	\$ (33,752)
Total Resources Used to Finance the Net Cost of Operations	\$ 1,427,172	\$ 1,414,969	\$ 7,005,363

The accompanying notes are an integral part of these statements.

6.

Environmental Protection Agency
Consolidating Statement of Financing *(continued)*
 For the Years Ended September 30, 2004 and 2003
 (Dollars in Thousands)

Superfund Trust Fund FY 2004	Superfund Trust Fund FY 2003	All Others FY 2004
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**COMPONENTS OF NET COST OF OPERATIONS THAT
WILL NOT REQUIRE OR GENERATE RESOURCES IN THE
CURRENT PERIOD**

Components Requiring or Generating Resources in Future Periods:

Increase in Annual Leave Liability (Note 29)	\$ 0	\$ 1,088	\$ 0
Increase in Environmental and Disposal Liability (Note 29)	0	0	1,244
Increase in Unfunded Contingencies (Note 29)	0	0	22,425
Up/Downward Reestimates of Subsidy Expense (Note 29)	0	0	0
Increase in Public Exchange Revenue Receivable	(41,446)	(205,844)	(18,491)
Increase in Workers Compensation Costs (Note 29)	<u>0</u>	<u>246</u>	<u>0</u>

Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	\$ (41,446)	\$ (204,510)	\$ 5,178
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Components Not Requiring/Generating Resources:

Depreciation and Amortization	7,939	8,915	39,852
Revaluation of Assets or Liabilities	0	0	0
Expenses Not Requiring Budgetary Resources	<u>59,075</u>	<u>33,490</u>	<u>6,069</u>

Total Components of Net Cost of Operations that Will Not Require or Generate Resources	\$ 67,014	\$ 42,405	\$ 45,921
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Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	<u>25,568</u>	<u>(162,105)</u>	<u>51,099</u>
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Net Cost of Operations	\$ <u>1,452,740</u>	\$ <u>1,252,864</u>	\$ <u>7,056,462</u>
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6.

Environmental Protection Agency
Consolidating Statement of Financing *(continued)*
 For the Years Ended September 30, 2004 and 2003
 (Dollars in Thousands)

	All Others FY 2003	Consolidated Totals* FY 2004	Consolidated Totals* FY 2003
RESOURCES USED TO FINANCE ACTIVITIES:			
Budgetary Resources Obligated			
Obligations Incurred	\$ 7,811,921	\$ 10,155,381	\$ 9,362,322
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(440,514)</u>	<u>(671,143)</u>	<u>(728,658)</u>
Obligations, Net of Offsetting Collections	\$ 7,371,407	\$ 9,484,238	\$ 8,633,664
Less: Offsetting Receipts (Note 28)	<u>(643,956)</u>	<u>(1,350,841)</u>	<u>(790,458)</u>
Net Obligations	\$ 6,727,451	\$ 8,133,397	\$ 7,843,206
Other Resources			
Transfers In/Out without Reimbursement, Property (Note 31)	\$ (84)	\$ 0	\$ 0
Imputed Financing Sources (Note 32)	108,196	128,861	128,195
Income from Other Appropriations (Note 23)	<u>(75,597)</u>	<u>0</u>	<u>0</u>
Net Other Resources Used to Finance Activities	\$ 32,515	\$ 128,861	\$ 128,195
Total Resources Used To Finance Activities	\$ 6,759,966	\$ 8,262,258	\$ 7,971,401
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS			
Change in Budgetary Resources Obligated	\$ 165,667	\$ 192,871	\$ 344,763
Resources that Fund Prior Period Expenses (Note 29)	0	(13,855)	0
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:			
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances	4,980	4,142	4,980
Offsetting Receipts Not Affecting Net Cost	11,649	93,304	158,151
Resources that Finance Asset Acquisition	(66,321)	(106,185)	(82,608)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost	<u>96,135</u>	<u>0</u>	<u>(9,642)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 212,110	\$ 170,277	\$ 415,644
Total Resources Used to Finance the Net Cost of Operations	\$ 6,972,076	\$ 8,432,535	\$ 8,387,045

* This statement did not have any intra-agency eliminations for FY 2004 or 2003.

6.

Environmental Protection Agency
Consolidating Statement of Financing *(continued)*
 For the Years Ended September 30, 2004 and 2003
 (Dollars in Thousands)

All Others FY 2003	Consolidated Totals* FY 2004	Consolidated Totals* FY 2003
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**COMPONENTS OF NET COST OF OPERATIONS THAT
 WILL NOT REQUIRE OR GENERATE RESOURCES IN THE
 CURRENT PERIOD**

Components Requiring or Generating Resources in Future Periods:

Increase in Annual Leave Liability (Note 29)	\$ 5,647	\$ 0	\$ 6,735
Increase in Environmental and Disposal Liability (Note 29)	(3,276)	1,244	(3,276)
Increase in Unfunded Contingencies (Note 29)	0	22,425	0
Up/Downward Reestimates of Subsidy Expense (Note 29)	170	0	170
Increase in Public Exchange Revenue Receivable	(1,706)	(59,937)	(207,550)
Increase in Workers Compensation Costs (Note 29)	<u>4,591</u>	<u>0</u>	<u>4,837</u>

Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	\$ 5,426	\$ (36,268)	\$ (199,084)
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Components Not Requiring/Generating Resources:

Depreciation and Amortization	36,289	47,791	45,204
Revaluation of Assets or Liabilities	0	0	0
Expenses Not Requiring Budgetary Resources	<u>(804)</u>	<u>65,144</u>	<u>32,686</u>

Total Components of Net Cost of Operations that Will Not Require or Generate Resources	\$ 35,485	\$ 112,935	\$ 77,890
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Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	<u>40,911</u>	<u>76,667</u>	<u>(121,194)</u>
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Net Cost of Operations	<u>\$ 7,012,987</u>	<u>\$ 8,509,202</u>	<u>\$ 8,265,851</u>
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* This statement did not have any intra-agency eliminations for FY 2004 or 2003.

7.

Environmental Protection Agency
Consolidated Statement of Custodial Activity
 For the Years Ended September 30, 2004 and 2003
 (Dollars in Thousands)

FY 2004

FY 2003

Revenue Activity:

Sources of Collections

Fines and Penalties	\$ 162,948	\$ 161,544
Other	<u>24,463</u>	<u>5,793</u>
Total Cash Collections	\$ 187,411	\$ 167,337
Accrual Adjustment	<u>(24,865)</u>	<u>7,172</u>
Total Custodial Revenue (Note 24)	\$ <u>162,546</u>	\$ <u>174,509</u>

Disposition of Collections:

Transferred to Others (General Fund)	\$ 187,194	\$ 165,440
Increases/Decreases in Amounts to be Transferred	<u>(24,648)</u>	<u>9,069</u>
Total Disposition of Collections	\$ <u>162,546</u>	\$ <u>174,509</u>
 Net Custodial Revenue Activity (Note 24)	 \$ <u><u>0</u></u>	 \$ <u><u>0</u></u>

Environmental Protection Agency

Notes to Financial Statements (Dollars in Thousands)

Note I. Summary of Significant Accounting Policies

A. BASIS OF PRESENTATION

These consolidating financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (EPA or Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the Agency in accordance with Form and Content of Agency Financial Statements, OMB Bulletin No. 01-09, and the EPA's accounting policies which are summarized in this note. In addition to the reports required by OMB Bulletin No. 01-09, the Statement of Net Cost has been prepared by the Agency's strategic goals.

B. REPORTING ENTITIES

The EPA was created in 1970 by executive reorganization from various components of other federal agencies in order to better marshal and coordinate federal pollution control efforts. The Agency is generally organized around the media and substances it regulates—air, water, land, hazardous waste, pesticides and toxic substances. For FY 2004 the reporting entities are grouped as the Superfund Trust Fund and All Other Funds.

Superfund Trust Fund

In 1980, the Superfund Trust Fund, Treasury fund group 8145, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to other federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury's collections and investment activity.

The accompanying financial statements include the accounts of all funds described in this note. EPA uses an expense allocation methodology as a financial statement estimate to present EPA programs' full cost. This methodology is used because Superfund programs may charge some costs directly to the Superfund Trust Fund and charge the remainder of their costs to All Other Funds in the Agency-wide appropriations. These amounts are presented as Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the Statement of Changes in Net Position and the Statement of Financing. (See Note 23.)

In addition, specific general support services costs (e.g., rent, communications, utilities, and mail operations) initially charged to the Agency's Science and Technology (S&T) and Environment Programs and Management (EPM) appropriations, are allocated to the Superfund Trust Fund. During the year, these costs are allocated based on a ratio of Superfund direct labor hours to the Agency total of all direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in its appropriation. (See Note 23.)

All Other Funds

All Other Funds include other Trust Fund appropriations, General Fund appropriations, Revolving Funds, Special Funds, the Agency Budgetary Clearing accounts, Deposit Funds, General Fund Receipt accounts, the Environmental Services Special Fund Receipt Account, the Miscellaneous Contributed Funds Trust Fund, and General Fund appropriations transferred from other federal agencies as authorized by the Economy Act of 1932. General Fund appropriation activities that no longer receive current definite appropriations but have unexpended authority are the Asbestos Loan Program and Energy, Research and Development. Detailed descriptions of All Other Funds are as follows:

The Leaking Underground Storage Tank (LUST) Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent a gallon tax on motor fuels which will expire in 2005.



The Oil Spill Response Trust Fund, Treasury fund group 8221, was authorized by the Oil Pollution Act of 1990 (OPA). Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other federal agencies.

The State and Tribal Assistance Grants (STAG) appropriation, Treasury fund group 0103, provides funds for environmental programs and infrastructure assistance including capitalization grants for State revolving funds and performance partnership grants. Environmental programs and infrastructure supported are: Clean and Safe Water; Capitalization grants for the Drinking Water State Revolving Funds; Clean Air; Direct grants for Water and Wastewater Infrastructure needs, Partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross Border Environmental Risks.

The S&T appropriation, Treasury fund group 0107, finances salaries, travel, science, technology, research and development activities including laboratory and center supplies, certain operating expenses, grants, contracts, intergovernmental agreements, and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2004, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Environmental scientific and technological activities and programs include Clean Air; Clean and Safe Water; Americans Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food.

The EPM appropriation, Treasury fund group 0108, includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the Agency's operating programs. Areas supported from this appropriation include: Clean Air; Clean and Safe Water; Land Preservation and Restoration, Healthy Communities and Ecosystems, and Compliance and Environmental Stewardship.

The Office of Inspector General (OIG) appropriation, Treasury fund group 0112, provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and

mismanagement. Additional funds for audit and investigative activities associated with the Superfund and the LUST Trust Funds are appropriated under those Trust Fund accounts and transferred to the Office of Inspector General account. The audit function provides contract, internal controls and performance, and financial and grant audit services. The appropriation includes expenses incurred and reimbursed from the appropriated trust funds accounted for under Treasury fund group 8145 and 8153.

The Buildings and Facilities appropriation, Treasury fund group 0110, provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the EPA.

The Payment to the Hazardous Substance Superfund appropriation Treasury fund group 0250, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Hazardous Substance Superfund Program.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY 1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program Fund disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Fund receives the subsidy payment, borrows from Treasury and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury fund group 0118 for the subsidy and administrative support; under Treasury fund group 4322 for loan disbursements, loans receivable and loan collections on post FY 1991 loans; and under Treasury fund group 2917 for pre FY 1992 loans receivable and loan collections.

The Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA Act of 1972, as amended in 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide Maintenance fees are paid by industry to offset the costs of pesticide reregistration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently these fees are being deposited in the FIFRA fund (see above).

The Working Capital Fund (WCF), Treasury fund group, 4565, includes two activities: computer support services and postage. The WCF derives revenue from these activities based upon a fee for services. WCF's customers currently consist solely of Agency program offices. Accordingly, revenues generated by WCF and expenses recorded by the program offices for use of such services along with the related advances/liabilities, are eliminated on consolidation.

The Exxon Valdez Settlement Fund, Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

The Pesticide Registration Fund, Treasury fund group 5374, was authorized in 2004 for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Act of 1988, are to be paid by industry and deposited into this fund group.

Allocations and appropriations transferred to the Agency from other federal agencies include funds from the Appalachian Regional Commission, which provides economic assistance to state and local developmental activities, and the Agency for International Development, which provides assistance on environmental matters at international levels. The transfer allocations are accounted for under Treasury fund group 0200 and the appropriation transfers are accounted for under 0108.

The EPA Department of the Treasury Clearing Accounts include: (1) the Budgetary Suspense Account, (2) the Unavailable Check Cancellations and Overpayments Account, and (3) the Undistributed Intra-agency



Payments and Collections (IPAC) Account. These are accounted for under Treasury fund groups 3875, 3880 and 3885, respectively.

Deposit funds include: Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances without Orders; and Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. These funds are accounted for under Treasury fund groups 6050, 6264, 6265, 6266, 6275 and 6500.

General Fund Receipt Accounts include: Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Downward Reestimates of Subsidies; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. These accounts are accounted for under Treasury fund groups 0895, 1099, 1435, 1499, 2753.3, 3200 and 3220, respectively.

The Environmental Services Receipt account, Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund will be appropriated to the S&T and the EPM appropriations to meet the expenses of the programs that generate the receipts.

The Miscellaneous Contributed Funds Trust Fund, Treasury fund group 8741, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

C. BUDGETS AND BUDGETARY ACCOUNTING

Superfund

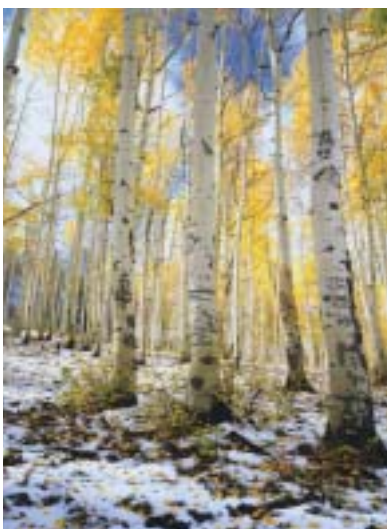
Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund Trust Fund at Treasury to cover the amounts being disbursed.

All Other Funds

Congress adopts an annual appropriation amount for the LUST and the Oil Spill Response Trust Funds to remain available until expended. A transfer account for the LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability Trust Fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount.

Congress adopts an annual appropriation for STAG, B&F, and for Payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for S&T, EPM and for the OIG to be available for 2 fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed from a combination of two sources, one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adopted a 1 year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost is financed under permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan was disbursed.



Funding of the FIFRA and Pesticide Registration Funds is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other Agency appropriations to offset costs incurred for providing the Agency administrative support for computer support and postage.

Funds transferred from other federal agencies are funded by a nonexpenditure transfer of funds from the other federal agencies. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

Clearing accounts, deposit accounts, and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing and deposit accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

D. BASIS OF ACCOUNTING

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. Material interfund balances and transactions are eliminated.

E. REVENUES AND OTHER FINANCING SOURCES.

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenues and Other Financing Sources."

Superfund

The Superfund program receives most of its funding through appropriations that may be used, within specific statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs), under CERCLA Section 122(b)(3), placed in special accounts. Special accounts were previously limited to settlement amounts for future costs. However, beginning in FY 2001, cost recovery amounts received under CERCLA Section 122(b)(3) settlements could be placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

All Other Funds

The majority of All Other Funds receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. However, under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund for the subsidized portion of the loan. The last year Congress provided appropriations to make new loans was 1993. The FIFRA and Pesticide Registration funds receive funding through fees collected for services provided and interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses upon consolidation of the Agency's financial statements. The Exxon Valdez Settlement Fund receives funding through reimbursements.

Appropriated funds are recognized as Other Financing Sources expended when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned, i.e., when services have been rendered.



F. FUNDS WITH THE TREASURY

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The major funds maintained with Treasury are Appropriated Funds, Revolving Funds, Trust Funds, Special Funds, Deposit Funds, and Clearing Accounts. These funds have balances available to pay current liabilities and finance authorized obligations, as applicable. (See Note 2.)

G. INVESTMENTS IN U.S. GOVERNMENT SECURITIES

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. (See Note 4.)

H. NOTES RECEIVABLE

The Agency records notes receivable at their face value and any accrued interest as of the date of receipt.

I. MARKETABLE SECURITIES

The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold. (See Note 6.)

J. ACCOUNTS RECEIVABLE AND INTEREST RECEIVABLE (SEE NOTE 5.)

Superfund

CERCLA as amended by SARA provides for the recovery of costs from PRPs. However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered.

It is the Agency's policy to record accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under SSCs, cost sharing arrangements may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10 percent or 50 percent of site remedial action costs. States may pay the full amount of their share in advance, or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded, because the Agency has not had collection problems with these agreements.

All Other Funds

The majority of receivables for All Other Funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, allocations receivable from Superfund (eliminated in consolidated totals), and refunds receivable for the STAG appropriation.

K. ADVANCES AND PREPAYMENTS

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred. (See Note 6.)

L. LOANS RECEIVABLE

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans. (See Note 7.)

M. APPROPRIATED AMOUNTS HELD BY TREASURY

For the Superfund and LUST Trust Funds and for amounts appropriated from the Superfund Trust Fund to the OIG, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. (See Note 17.)

N. PROPERTY, PLANT, AND EQUIPMENT

EPA accounts for its personal and real property accounting records in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment." For EPA-held property, the Fixed Assets Subsystem (FAS) automatically generates depreciation entries monthly based on acquisition dates. (See Note 9.)

A purchase of EPA-held or contractor-held personal property is capitalized if it is valued at \$25 thousand or more and has an estimated useful life of at least 2 years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of 6 years depreciating 10 percent the first and sixth year, and 20 percent in years 2 through 5. This modified straight-line method is still used for contractor-held property; detailed records are maintained and accounted for in contractor systems, not in FAS. All EPA-held personal property purchased before the implementation of FAS was assumed to have an estimated useful life of 5 years. New acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from 2 to 15 years.

Superfund contractor-held property used as part of the remedy for site-specific response actions is capitalized in accordance with the Agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, EPA will retain control of the property, e.g., pump and treat facility, for 10 years or less, and will transfer its interest in the facility to the respective state for mandatory operation and maintenance - usually 20 years or more. Consistent with EPA's 10 year retention period, depreciation for this property will be based on a 10 year life. However, if any property is transferred to a state in a year or less, this property will be charged to expense. If any property is sold prior to EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is \$75 thousand or more. Land is capitalized regardless of cost. Buildings were valued at an estimated original cost basis, and land was valued at fair market value if purchased prior to FY 1997. Real property purchased during and after FY 1997 are valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

In FY 1997, EPA's Working Capital Fund, a revenue generating activity, implemented requirements to capitalize software if the purchase price was \$100 thousand or more with an estimated useful life of 2 years or more. In FY 2001, the Agency began capitalizing software for All Other Funds whose acquisition



value is \$500 thousand or more in accordance with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Software is depreciated using the straight-line method over the specific asset's useful life ranging from 2 to 10 years.

O. LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid by the Agency without an appropriation or other collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

P. BORROWING PAYABLE TO THE TREASURY

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

Q. INTEREST PAYABLE TO TREASURY

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 2003 and FY 2004, there was no outstanding interest payable to Treasury since payment was made through September 30.

R. ACCRUED UNFUNDED ANNUAL LEAVE

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Statement of Financial Position as a component of "Payroll and Benefits Payable." (See Note 33.)

S. RETIREMENT PLAN

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management (OPM), as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

T. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments will be made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material

prior period errors to: (1) the current period financial statements, and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 2004 and 2003, consist of the following:

	FY 2004			FY 2003		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	\$ 199,406	\$	\$ 199,406	\$ 26,448	\$	\$ 26,448
LUST	14,825		14,825	34,008		34,008
Oil Spill & Misc.	10,222		10,222	5,581		5,581
Revolving Funds:						
FIFRA/Tolerance	4,913		4,913	1,826		1,826
Working Capital	53,560		53,560	57,780		57,780
Cr. Reform Finan.	492		492	492		492
Appropriated	11,639,189		11,639,189	11,526,823		11,526,823
Other Fund Types	136,646	5,892	142,538	111,599	20,248	131,847
Total	\$ 12,059,253	\$ 5,892	\$ 12,065,145	\$ 11,764,557	\$ 20,248	\$ 11,784,805

Entity fund balances, except for special fund receipt accounts, are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below). Entity Assets for Other Fund Types consist of special purpose funds and special fund receipt accounts, such as the Pesticide Registration funds and the Environmental Services receipt account. The Non-Entity Assets for Other Fund Types consist of clearing accounts and deposit funds, which are either awaiting documentation for the determination of proper disposition or being held by EPA for other entities.

	FY 2004		FY 2003	
Status of Fund Balances:	Superfund	All Others	Superfund	All Others
Unobligated Amounts in Fund Balances:				
Available for Obligation	\$ 823,694	\$ 2,080,155	\$ 766,786	\$ 2,011,471
Unavailable for Obligation	19	92,842	19	87,404
Net Receivables from Invested Balances	(2,381,849)	(89,725)	(2,579,726)	(66,574)
Balances in Treasury Trust Fund (Note 17)	188,182	13,256	866	12,377
Obligated Balance not yet Disbursed	1,569,360	9,638,406	1,838,503	9,582,206
Balances not subject to Obligation		130,805		131,473
Totals	\$ 199,406	\$ 11,865,739	\$ 26,448	\$ 11,758,357

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2004 and FY 2003 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

Note 3. Cash

As of September 30, 2004 and 2003, cash consists of an imprest fund of \$10 thousand.

Note 4. Investments

As of September 30, 2004 and 2003, investments consist of the following:

		Cost	Unamortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Superfund						
Intragovernmental Securities:						
Non-Marketable	FY 2004	\$ <u>2,226,973</u>	\$ <u>9,677</u>	\$ <u>38</u>	\$ <u>2,217,334</u>	\$ <u>2,217,334</u>
	FY 2003	\$ <u>2,507,927</u>	\$ <u>(8,183)</u>	\$ <u>37</u>	\$ <u>2,516,147</u>	\$ <u>2,516,147</u>
All Others						
Intragovernmental Securities:						
Non-Marketable	FY 2004	\$ <u>2,232,674</u>	\$ <u>(57,213)</u>	\$ <u>27,277</u>	\$ <u>2,317,164</u>	\$ <u>2,317,164</u>
	FY 2003	\$ <u>2,037,560</u>	\$ <u>(51,290)</u>	\$ <u>25,834</u>	\$ <u>2,114,684</u>	\$ <u>2,114,684</u>

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable. (See Note 6.)

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 2004 and 2003, consist of the following:

	FY 2004		FY 2003	
	Superfund	All Others	Superfund	All Others
Intragovernmental Assets:				
Accounts & Interest Receivable	\$ <u>27,212</u>	\$ <u>89,267</u>	\$ <u>34,665</u>	\$ <u>119,941</u>
Non-Federal Assets:				
Unbilled Accounts Receivable	\$ 91,758	\$ 1,682	\$ 109,272	\$ 1,668
Accounts & Interest Receivable	911,452	104,269	815,119	113,130
Less: Allowance for Uncollectibles	<u>(634,062)</u>	<u>(60,604)</u>	<u>(495,905)</u>	<u>(49,502)</u>
Total	\$ <u>369,148</u>	\$ <u>45,347</u>	\$ <u>428,486</u>	\$ <u>65,296</u>

The Allowance for Doubtful Accounts is determined both on a specific identification basis, as a result of a case-by-case review of receivables, and on a percentage basis for receivables not specifically identified.

Note 6. Other Assets

Other Assets for September 30, 2004, consist of the following:

	Superfund	All Others	Combined Totals
Intragovernmental Assets:			
Advances to Federal Agencies	\$ 32	\$ 735	\$ 767
Advances to Working Capital Fund	6,749		6,749
Advances for Postage		553	553
Total Intragovernmental Assets	\$ 6,781	\$ 1,288	\$ 8,069
Non-Federal Assets:			
Travel Advances	\$ (53)	\$ (955)	\$ (1,008)
Letter of Credit Advances		271	271
Grant Advances		1,164	1,164
Other Advances	751	79	830
Operating Materials and Supplies	1	199	200
Inventory for Sale		51	51
Total Non-Federal Assets	\$ 699	\$ 809	\$ 1,508

Other Assets for September 30, 2003, consist of the following:

	Superfund	All Others	Combined Totals
Intragovernmental Assets:			
Advances to Federal Agencies	\$ 146	\$ 3,233	\$ 3,379
Advances to Working Capital Fund	7,268		7,268
Advances for Postage		594	594
Total Intragovernmental Assets	\$ 7,414	\$ 3,827	\$ 11,241
Non-Federal Assets:			
Travel Advances	\$ (51)	\$ (918)	\$ (969)
Letter of Credit Advances		601	601
Grant Advances		1,544	1,544
Other Advances	731	95	826
Operating Materials and Supplies		217	217
Inventory for Sale		51	51
Securities Received in Settlement for Debt		1,912	1,912
Total Non-Federal Assets	\$ 680	\$ 3,502	\$ 4,182

Note 7. Loans Receivable, Net—Non-Federal

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations

made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net present value of loans is the amount of the gross loan receivable less the present value of the subsidy. For All Other Funds, the loans receivable, allowances, and the nature and amounts of the subsidy expenses associated with the loans as of September 30, 2004 and 2003, are as follows:

	FY 2004			FY 2003		
	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	\$ 25,243	\$	\$ 25,243	\$ 33,245	\$	\$ 33,245
Direct Loans Obligated After FY 1991	30,466	(6,782)	23,684	34,597	(14,336)	20,261
Total	\$ 55,709	\$ (6,782)	\$ 48,927	\$ 67,842	\$ (14,336)	\$ 53,506

* Allowance for Pre-Credit Reform loans (prior to FY 1992) is the Allowance for Estimated Uncollectible Loans, and the Allowance for Post Credit Reform Loans (after FY 1991) is the Allowance for Subsidy Cost (present value).

Subsidy Expenses for Credit Reform Loans (reported on a cash basis):

	Interest Rate Re-estimate	Technical Re-estimate	Total
Direct Loan Subsidy Expense—FY 2004	\$	\$	\$ 0
Downward Subsidy Reestimate—FY 2004	(2,660)	(2,894)	(5,554)
FY 2004 Totals	\$ (2,660)	(2,894)	(5,554)
Direct Loan Subsidy Expense—FY 2003	\$ 377	\$ 528	\$ 905
Downward Subsidy Reestimate—FY 2003	(170)	(201)	(371)
FY 2003 Totals	\$ 207	\$ 327	\$ 534

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2004:

	Superfund	All Other Funds	Combined Total
Intragovernmental:			
Accounts Payable to other Federal Agencies	\$ 1,602	\$ 206	\$ 1,808
Liability for Allocation Transfers	31,286		31,286
Expenditure Transfers Payable to other EPA Funds	69,793		69,793
Accrued Liabilities, Federal	<u>38,100</u>	<u>37,386</u>	<u>75,486</u>
Total	\$ <u>140,781</u>	\$ <u>37,592</u>	\$ <u>178,373</u>
Non-Federal:			
Accounts Payable, Non-Federal	\$ 36,546	\$ 56,716	\$ 93,262
Advances Payable, Non-Federal	3	16	19
Interest Payable	— *	41	41
Grant Liabilities	21,694	572,430	594,124
Other Accrued Liabilities, Non-Federal	<u>87,126</u>	<u>107,279</u>	<u>194,405</u>
Total	\$ <u>145,369</u>	\$ <u>736,482</u>	\$ <u>881,851</u>

* Dashes indicate a balance below the rounding level of one thousand dollars.

The Accounts Payable and Accrued Liabilities consist of the following as of September 30, 2003:

	Superfund	All Other Funds	Combined Total
Intragovernmental:			
Accounts Payable to other Federal Agencies	\$ 593	\$ 618	\$ 1,211
Liability for Allocation Transfers	20,017		20,017
Expenditure Transfers Payable to other EPA Funds	86,087		86,087
Accrued Liabilities, Federal	<u>38,934</u>	<u>69,538</u>	<u>108,472</u>
Total	\$ <u>145,631</u>	\$ <u>70,156</u>	\$ <u>215,787</u>
Non-Federal:			
Accounts Payable, Non-Federal	\$ 45,880	\$ 71,160	\$ 117,040
Advances Payable, Non-Federal	3	13	16
Interest Payable	553	2	555
Grant Liabilities	21,714	545,872	567,586
Other Accrued Liabilities, Non-Federal	<u>97,400</u>	<u>105,737</u>	<u>203,137</u>
Total	\$ <u>165,550</u>	\$ <u>722,784</u>	\$ <u>888,334</u>

Note 9. General Plant, Property and Equipment

Superfund plant, property and equipment consist of personal property items held by contractors and the EPA. EPA also has property funded by various other Agency appropriations. The property funded by these

appropriations is presented in the aggregate under "All Others" and consists of software; real, EPA-Held and Contractor-Held personal, and capital lease property.

As of September 30, 2004, Plant, Property and Equipment consist of the following:

	<u>Superfund</u>			<u>All Others</u>		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 29,159	\$ (15,544)	\$ 13,615	\$ 159,685	\$ (97,249)	\$ 62,436
Software	7,432	(1,147)	6,285	98,202	(13,734)	84,468
Contractor-Held Property:						
Superfund Site-Specific	31,328	(11,702)	19,626			
General	9,556	(1,261)	8,295	20,687	(6,422)	14,265
Land and Buildings				547,876	(114,184)	433,692
Capital Leases				49,956	(19,275)	30,681
Total	\$ 77,475	\$ (29,654)	\$ 47,821	\$ 876,406	\$ (250,864)	\$ 625,542

As of September 30, 2003, Plant, Property and Equipment consisted of the following:

	<u>Superfund</u>			<u>All Others</u>		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 28,990	\$ (15,664)	\$ 13,326	\$ 158,199	\$ (97,785)	\$ 60,414
Software	3,649	(138)	3,511	53,888	(4,397)	49,491
Contractor-Held Property:						
Superfund Site-Specific	40,505	(16,642)	23,863			
General	7,607	(2,452)	5,155	15,679	(6,429)	9,250
Land and Buildings				536,212	(100,826)	435,386
Capital Leases				41,535	(16,605)	24,930
Total	\$ 80,751	\$ (34,896)	\$ 45,855	\$ 805,513	\$ (226,042)	\$ 579,471

Note 10. Debt

The debt due to Treasury consists of the following as of September 30, 2004 and 2003:

	<u>FY 2004</u>			<u>FY 2003</u>		
All Others Funds	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental:						
Debt to Treasury	\$ 21,189	\$ 2,912	\$ 24,101	\$ 24,290	\$ (3,101)	\$ 21,189

Note II. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable.

Note 12. Other Liabilities

Other Liabilities consist of the following as of September 30, 2004:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities—Intragovernmental			
Superfund—Current			
Employer Contributions & Payroll Taxes	\$ 1,918	\$	\$ 1,918
Other Advances	1,538		1,538
Advances, HRSTF Cashout	32,724		32,724
Deferred HRSTF Cashout	3		3
Superfund—Non-Current			
Unfunded FECA Liability		1,569	1,569
Total Superfund	\$ 36,183	\$ 1,569	\$ 37,752
All Other—Current			
Employer Contributions & Payroll Taxes	\$ 8,842	\$	\$ 8,842
WCF Advances	6,749		6,749
Other Advances	1,984		1,984
Liability for Deposit Funds	(30)		(30)
Resources Payable to Treasury	1		1
Subsidy Payable to Treasury	437		437
All Other—Non-Current			
Payable to Treasury Judgment Fund *		22,000	22,000
Unfunded FECA Liability		7,135	7,135
Total All Other	\$ 17,983	\$ 29,135	\$ 47,118
Other Liabilities—Non-Federal			
Superfund—Current			
Unearned Advances, Non- Federal	\$ 46,211	\$	\$ 46,211
All Other—Current			
Unearned Advances, Non- Federal	\$ 10,613	\$	\$ 10,613
Liability for Deposit Funds, Non-Federal	5,601		5,601
All Other—Non-Current			
Capital Lease Liability		41,491	41,491
Total All Other	\$ 16,214	\$ 41,491	\$ 57,705

* This amount represents a Contract Disputes Act settlement paid by the Treasury Judgment Fund on EPA's behalf for which the Agency is liable.

Other Liabilities consist of the following as of September 30, 2003:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities—Intragovernmental			
Superfund—Current			
Employer Contributions & Payroll Taxes	\$ 1,379	\$	\$ 1,379
Other Advances	1,811		1,811
Advances, HRSTF Cashout	25,016		25,016
Deferred HRSTF Cashout	947		947
Superfund—Non-Current			
Unfunded FECA Liability		1,447	1,447
Total Superfund	\$ 29,153	\$ 1,447	\$ 30,600
All Other—Current			
Employer Contributions & Payroll Taxes	\$ 6,589	\$	\$ 6,589
WCF Advances	7,269		7,269
Other Advances	1,674		1,674
Liability for Deposit Funds	(515)		(515)
Resources Payable to Treasury	1		1
All Other—Non-Current			
Unfunded FECA Liability		6,593	6,593
Total All Other	\$ 15,018	\$ 6,593	\$ 21,611
Other Liabilities—Non-Federal			
Superfund—Current			
Unearned Advances, Non-Federal	\$ 49,809	\$	\$ 49,809
All Other—Current			
Unearned Advances, Non-Federal	\$ 5,044	\$	\$ 5,044
Liability for Deposit Funds, Non-Federal	12,261		12,261
All Other—Non-Current			
Capital Lease Liability		35,800	35,800
Total All Other	\$ 17,305	\$ 35,800	\$ 53,105

Note 13. Leases

CAPITAL LEASES:

The Capital Leases for All Other Funds as of September 30, 2004 and 2003, consist of the following:

Summary of Assets Under Capital Lease:	FY 2004	FY 2003
Real Property	\$ 40,913	\$ 40,913
Personal Property	2,606	622
Software License	6,437	
Total	\$ 49,956	\$ 41,535
Accumulated Amortization	\$ 19,275	\$ 16,605

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. The real property leases terminate in FYs 2010, 2013, and 2025. EPA also has capital leases terminating in FY 2007 for seven shuttle buses. These charges are expended out of the EPM appropriation.

During FY 2004 EPA entered into lease agreements for an IBM Supercomputer and Microsoft Office software. These leases terminate in 2006 and 2009, respectively. These charges are expended out of the Working Capital Fund.

The total future minimum lease payments of the capital leases are listed below.

Future Payments Due:		All Others
Fiscal Year		
2005	\$	8,734
2006		8,716
2007		8,050
2008		7,821
2009		6,295
After 5 Years		<u>71,014</u>
Total Future Minimum Lease Payments		110,630
Less: Imputed Interest		<u>(69,139)</u>
Net Capital Lease Liability	\$	<u>41,491</u>
Liabilities not Covered by Budgetary Resources (See Note 12)	\$	<u>41,491</u>

OPERATING LEASES:

The GSA provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties.

For All Other Funds, EPA has three direct operating leases for land and buildings housing scientific laboratories and/or computer facilities during FY 2004. Most of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. Two of these leases expire in FYs 2017 and 2020. A third lease that expired in FY 2001 was extended until FY 2007. These charges are expended from the EPM appropriation. The total minimum future costs of operating leases are listed below.

Fiscal Year		Operating Leases, Land & Buildings— All Others
2005	\$	87
2006		87
2007		81
2008		74
2009		74
Beyond 2009		<u>698</u>
Total Future Minimum Lease Payments	\$	<u>1,101</u>

Note 14. Pension and Other Actuarial Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, EPA is allocated the portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor.

The FECA Actuarial Liability at September 30, 2004 and 2003, consists of the following:

	FY 2004		FY 2003	
	Superfund	All Others	Superfund	All Others
FECA Actuarial Liability	\$ <u>7,263</u>	\$ <u>33,018</u>	\$ <u>7,937</u>	\$ <u>36,159</u>

The FY 2004 present value of these estimated outflows are calculated using a discount rate of 4.883 percent in the first year, and 5.235 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 15. Cashout Advances, Superfund

Cashouts are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used in accordance with the terms of the settlement agreement. Funds placed in special accounts may be used without further appropriation by Congress.

Note 16. Unexpended Appropriations, All Other Funds

As of September 30, 2004 and 2003, the Unexpended Appropriations consist of the following for All Other Funds:

Unexpended Appropriations:	FY 2004	FY 2003
Unobligated		
Available	\$ 1,911,797	\$ 1,797,410
Unavailable	39,591	41,667
Undelivered Orders	<u>8,908,748</u>	<u>8,929,159</u>
Total	\$ <u>10,860,136</u>	\$ <u>10,768,236</u>

Note 17. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consist of amounts held in trusteeship by Treasury in the Superfund Trust Fund and the LUST Trust Fund.

Superfund (Audited)

Superfund is supported primarily by general revenues, cost recoveries of funds spent to clean up hazardous waste sites, interest income, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude oil and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes and the environmental tax on corporations also expired on December 31, 1995, and has not been renewed by Congress. It is not known if or when such taxes will be reassessed in the future. (See Note 36 for more information on the status of this trust fund.)

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2004 and 2003. The amounts contained in these notes have been provided by Treasury and are audited. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2004			
	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	\$ _____	\$ 188,182	\$ 188,182
Total Undisbursed Balance		188,182	188,182
Interest Receivable		38	38
Investments, Net	2,402,074	(184,778)	2,217,296
Total Assets	\$ 2,402,074	\$ 3,442	\$ 2,405,516
Liabilities & Equity			
Liability for Allocation to CDC		11,061	11,061
Equity (Note 36)	\$ 2,402,074	\$ (7,619)	\$ 2,394,455
Total Liabilities and Equity	\$ 2,402,074	\$ 3,442	\$ 2,405,516
Receipts			
Corporate Environmental	\$	\$ 867	\$ 867
Cost Recoveries		74,063	74,063
Fines & Penalties		2,818	2,818
Total Revenue		77,748	77,748
Appropriations Received		1,257,536	1,257,536
Interest Income		27,380	27,380
Total Receipts	\$	\$ 1,362,664	\$ 1,362,664
Outlays			
Transfers to/from EPA, Net	\$ 1,256,790	\$ (1,256,790)	\$ 0
Transfers to CDC		(30,763)	(30,763)
Total Outlays	1,256,790	(1,287,553)	(30,763)
Net Income	\$ 1,256,790	\$ 75,111	\$ 1,331,901

SUPERFUND FY 2003

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	\$ _____	\$ _____ 866	\$ _____ 866
Total Undisbursed Balance		866	866
Interest Receivable		37	37
Investments, Net	2,599,744	(83,634)	2,516,110
Total Assets	\$ 2,599,744	\$ (82,731)	\$ 2,517,013
Liabilities & Equity			
Equity (Note 36)	\$ 2,599,744	\$ (82,731)	\$ 2,517,013
Total Liabilities and Equity	\$ 2,599,744	\$ (82,731)	\$ 2,517,013
Receipts			
Corporate Environmental	\$ _____	\$ (99,355)	\$ (99,355)
Cost Recoveries		146,502	146,502
Fines & Penalties	_____	2,873	2,873
Total Revenue		50,020	50,020
Appropriations Received		632,307	632,307
Interest Income	_____	48,945	48,945
Total Receipts	\$ _____	\$ 731,272	\$ 731,272
Outlays			
Transfers to EPA	\$ 1,283,223	\$ (1,283,223)	\$ 0
Transfers to CDC	0	(80,200)	(80,200)
Total Outlays	1,283,223	(1,363,423)	(80,200)
Net Income	\$ 1,283,223	\$ (632,151)	\$ 651,072

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FYs 2004 and 2003 there were no fund receipts from cost recoveries. The following represents the LUST Trust Fund as maintained by Treasury. The amounts contained in these notes have been provided by Treasury and are audited. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

LUST FY 2004

EPA

Treasury

Combined

Undistributed Balances

Uninvested Fund Balance	\$ _____	\$ 13,256	\$ 13,256
Total Undisbursed Balance		13,256	13,256
Interest Receivable		27,277	27,277
Investments, Net	<u>89,725</u>	<u>2,200,165</u>	<u>2,289,890</u>
Total Assets	\$ <u>89,725</u>	\$ <u>2,240,698</u>	\$ <u>2,330,423</u>

Liabilities & Equity

Equity	\$ <u>89,725</u>	\$ <u>2,240,698</u>	\$ <u>2,330,423</u>
Total Liabilities and Equity	\$ <u>89,725</u>	\$ <u>2,240,698</u>	\$ <u>2,330,423</u>

Receipts

Highway TF Tax	\$ _____	\$ 180,763	\$ 180,763
Airport TF Tax		11,678	11,678
Inland TF Tax		454	454
Refund Gasoline Tax		(1,535)	(1,535)
Refund Diesel Tax		(2,136)	(2,136)
Refund Aviation Tax	<u>_____</u>	<u>(227)</u>	<u>(227)</u>
Total Revenue		188,997	188,997
Interest Income	<u>_____</u>	<u>66,762</u>	<u>66,762</u>
Total Receipts	\$ <u>_____</u>	\$ <u>255,759</u>	\$ <u>255,759</u>

Outlays

Transfers to/from EPA, Net	\$ <u>75,552</u>	\$ <u>(75,552)</u>	\$ <u>0</u>
Total Outlays	<u>75,552</u>	<u>(75,552)</u>	<u>0</u>
Net Income	\$ <u>75,552</u>	\$ <u>180,207</u>	\$ <u>255,759</u>

LUST FY 2003

	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	\$ _____	\$ 12,377	\$ 12,377
Total Undisbursed Balance		12,377	12,377
Interest Receivable		25,834	25,834
Investments, Net	66,574	2,022,279	2,088,853
Total Assets	\$ 66,574	\$ 2,060,490	\$ 2,127,064
Liabilities & Equity			
Equity	\$ 66,574	\$ 2,060,490	\$ 2,127,064
Total Liabilities and Equity	\$ 66,574	\$ 2,060,490	\$ 2,127,064
Receipts			
Highway TF Tax	\$	\$ 177,340	\$ 177,340
Airport TF Tax		12,241	12,241
Inland TF Tax		448	448
Refund Gasoline Tax		(2,064)	(2,064)
Refund Diesel Tax		(3,214)	(3,214)
Refund Aviation Tax		(274)	(274)
Total Revenue		184,477	184,477
Interest Income		64,447	64,447
Total Receipts	\$	\$ 248,924	\$ 248,924
Outlays			
Transfers to/from EPA, Net	\$ 71,843	\$ (71,843)	\$ 0
Total Outlays	71,843	(71,843)	0
Net Income	\$ 71,843	\$ 177,081	\$ 248,924

Note 18. Commitments and Contingencies

EPA may be a party in various administrative proceedings, legal actions and claims brought by or against it. These include:

- Various personnel actions, suits, or claims brought against the Agency by employees and others.
- Various contract and assistance program claims brought against the Agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

Superfund:

Under CERCLA Section 106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

As of September 30, 2004, there are currently five CERCLA Section 106(b) administrative claims. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately \$68.0 million. The Environmental Appeals Board has not yet issued final decisions on any of these administrative claims; therefore, a definite estimate of the amount of the contingent loss cannot be made. The claimants' chance of success overall is characterized as reasonably possible.

All Other Funds:

As of September 30, 2004, there are three claims which may be considered threatened litigation involving all other appropriated funds of the Agency. If the claimants are successful, the total losses of the claims are estimated to range from \$7.9 to \$13.9 million. The largest claim (estimated range from \$6.0 to \$12.0 million, deemed reasonably possible) is an unasserted Contract Disputes Act matter which EPA will contest if asserted.

Judgment Fund:

In cases that are paid by the U.S. Treasury Judgment Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions."

As of September 30, 2004, there are no material claims pending in the Treasury Judgment Fund.

Note 19. Exchange Revenues, Statement of Net Cost

Exchange revenues on the Statement of Net Cost include income from services provided, interest revenue (with the exception of interest earned on trust fund investments), and miscellaneous earned revenue.

Note 20. Environmental Cleanup Costs

As of September 30, 2004, the EPA has three sites that require clean up stemming from its activities. Costs amounting to \$1.22 million may be paid out of the Treasury Judgment Fund. One claimant's chance of success (\$1.20 million) is characterized as probable; the other two are characterized as reasonably possible.

Accrued Cleanup Cost:

The EPA has 12 sites that will require future clean up associated with permanent closure and two sites with clean up presently underway. The estimated costs are approximately \$8.4 million. Since the cleanup costs associated with permanent closure are not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

The FY 2004 estimate for unfunded cleanup costs decreased by \$62 thousand from the FY 2003 estimate. There was a net decrease of \$535 thousand in funded cleanup costs from FY 2003 to FY 2004. EPA could also be potentially liable for cleanup costs, at a GSA-leased site; however, the amounts are not known.

Note 21. Superfund State Credits

Authorizing statutory language for Superfund and related federal regulations require states to enter into SSCs when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. Credit is limited to state site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-federal funds for remedial action.

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2004, the total remaining state credits have been estimated at \$5.4 million. The estimated ending credit balance on September 30, 2003 was \$9.6 million.

Note 22. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section III(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2004, EPA had 15 outstanding preauthorized mixed funding agreements with obligations totaling \$34.0 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note 23. Income and Expenses from other Appropriations; General Support Services Charged to Superfund

The Statement of Net Cost reports costs that represent the full costs of the program outputs. These costs consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs. (See Note 1B, Reporting Entities, Superfund.)

During FYs 2004 and 2003, the EPM appropriation funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. This appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities.

All of the expenses from EPM are distributed between EPA's two Reporting Entities: Superfund and All Other Funds. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the consolidated totals of the Statement of Net Cost or the Statement of Changes in Net Position.

	FY 2004			FY 2003		
	Income From	Expenses From	Net Effect	Income From	Expenses From	Net Effect
	Other Appropriations	Other Appropriations		Other Appropriations	Other Appropriations	
Superfund	\$ 82,776	(82,776)	0	\$ 75,597	(75,597)	0
All Others	(82,776)	82,776	0	(75,597)	75,597	0
Total	\$ 0	0	0	\$ 0	0	0

In addition, the related general support services costs allocated to the Superfund Trust Fund from the S&T and EPM funds are \$14.1 million for FY 2004 and \$11.9 million for FY 2003.

Note 24. Custodial Revenues and Accounts Receivable

EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectibility by EPA of the fines and penalties is based on the RPs' willingness and ability to pay.

	FY 2004	FY 2003
Fines, Penalties and Other Misc. Revenue (EPA)	\$ 162,546	\$ 174,509
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts		
Accounts Receivable	\$ 103,847	\$ 117,191
Less: Allowance for Doubtful Accounts	(51,630)	(40,311)
Total	\$ 52,217	\$ 76,880

Note 25. Statement of Budgetary Resources

Budgetary resources, obligations incurred, and outlays, as presented in the audited Statement of Budgetary Resources, are reconciled to amounts to be included in the Budget of the United States Government, FY 2006, as follows. The Budget of the United States Government with actual numbers for FY 2004 has not yet been published. We expect it will be published by March 2005, and it will be available on the OMB website at <http://www.whitehouse.gov/omb/budget/fy2006>. The actual amounts published for the year ended September 30, 2004, will be included in EPA's FY 2005 financial statement disclosures.

FY 2004	Budgetary Resources	Obligations	Outlays
Superfund			
Statement of Budgetary Resources	\$ 2,300,850	\$ 1,477,137	\$ 1,463,868
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other Expired Funds *	5,885	5,903	
Reported for Budget of the U. S. Government	\$ 2,306,735	\$ 1,483,040	\$ 1,463,868
All Other			
Statement of Budgetary Resources	\$ 10,851,239	\$ 8,678,244	\$ 8,233,315
Funds Reported by Other Federal Entities	1,185	1,185	
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other Expired and Immaterial Funds *	622	(6,726)	
	(91,468)	2,740	
Reported for Budget of the U. S. Government	\$ 10,761,578	\$ 8,675,443	\$ 8,233,315

Budgetary resources, obligations incurred, and outlays, as presented in the audited Statement of Budgetary Resources, are reconciled to amounts included in the Budget of the United States Government, FY 2005-Appendix (Budget Appendix), as follows. The Budget Appendix with actual numbers for FY 2003 was published after the audited financial statements were issued. In accordance with FASAB Technical Bulletin 2002-2, the applicable Budget Appendix amounts for FY 2003 are included below.

FY 2003	Budgetary Resources	Obligations	Outlays
Superfund			
Statement of Budgetary Resources	\$ 2,317,206	\$ 1,550,401	\$ 1,445,513
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other			1,313
Expired Funds *	2,114	2,133	
Reporting by other Agencies with Allocations	17,636	5,499	7,741
OMB-level Adjustment - appropriation temporarily not available, special account interest	(141,000)		
Rounding differences **	(1,956)	(33)	433
Budget of the United States Government	\$ 2,194,000	\$ 1,558,000	\$ 1,455,000
All Other			
Statement of Budgetary Resources	\$ 9,910,793	\$ 7,811,921	\$ 7,397,843
Funds Reported by Other Federal Entities	(353)		(36)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	622		26
Expired and Immaterial Funds *	(83,946)	4,142	
Rounding differences **	(1,116)	(63)	167
Budget of the United States Government	\$ 9,826,000	\$ 7,816,000	\$ 7,398,000

* Expired funds are not included in Budgetary Resources Available for Obligation and Total New Obligations in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.

** Balances are rounded to millions in the Budget Appendix.

Note 26. Recoveries and Resources Not Available, Statement of Budgetary Resources

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts:

Superfund	FY 2004	FY 2003
Recoveries of Prior Year Obligations—downward adjustments of prior years' obligations	\$ 98,848	\$ 124,797
Not Available-rescinded authority	(7,464)	(8,274)

All Others	FY 2004	FY 2003
Recoveries of Prior Year Obligations—downward adjustments of prior years' obligations	\$ <u>95,927</u>	\$ <u>114,437</u>
Temporarily Not Available—rescinded authority	<u>(790)</u>	
Permanently Not Available:		
Payments to Treasury	(2,641)	(3,101)
Rescinded Authority	(49,099)	(49,362)
Canceled Authority	<u>(19,463)</u>	<u>(23,719)</u>
Total Permanently Not Available	\$ <u>(71,203)</u>	\$ <u>(76,182)</u>

Note 27. Unobligated Balances Available

The availability of unobligated balances consists of the following as of September 30, 2004 and 2003. Unexpired unobligated balances are available to be apportioned by the OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

Superfund	FY 2004	FY 2003
Unexpired Unobligated Balance	\$ 823,694	\$ 766,786
Expired Unobligated Balance	<u>19</u>	<u>19</u>
Total	\$ <u>823,713</u>	\$ <u>766,805</u>

All Others	FY 2004	FY 2003
Unexpired Unobligated Balance	\$ 2,080,155	\$ 2,011,471
Expired Unobligated Balance	<u>92,840</u>	<u>87,401</u>
Total	\$ <u>2,172,995</u>	\$ <u>2,098,872</u>

Note 28. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For FYs 2004 and 2003, the following receipts were generated from these activities:

Superfund	FY 2004	FY 2003
Trust Fund Recoveries	\$ <u>74,063</u>	\$ <u>146,502</u>
Total	\$ <u>74,063</u>	\$ <u>146,502</u>

All Others	FY 2004	FY 2003
Special Fund Environmental Service	\$ 13,688	\$ 11,649
Downward Re-estimates of Subsidies	5,554	--*
Trust Fund Appropriation	<u>1,257,536</u>	<u>632,307</u>
Total	\$ <u>1,276,778</u>	\$ <u>643,956</u>

* Not reported as part of Offsetting Receipts in FY 2003. FY 2003 downward re-estimates were \$371 thousand.

Note 29. Statement of Financing

Specific components requiring or generating resources in future periods and resources that fund expenses recognized in prior periods are related to changes in liabilities not covered by budgetary resources. For FYs 2004 and 2003, the following line items are reconciled to the increases or decreases in those liabilities.

Statement of Financing lines FY 2004:	Superfund	All Other Funds	Combined Total
Resources that fund prior period expenses	(2,243)	(11,612)	(13,855)
Components requiring or generating resources in future periods:			
Increases in environmental liabilities		1,244	1,244
Increase in contingencies		22,425	22,425
Total	\$ (2,243)	\$ 12,057	\$ 9,814

Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items

Unfunded Annual Leave Liability	\$ (1,690)	\$ (5,339)	\$ (7,029)
Unfunded Contingent Liability		1,607	1,607
Unfunded Judgment Fund Liability		22,000	22,000
Unfunded Workers Compensation Liability	122	542	664
Actuarial Workers Compensation Liability	(675)	(3,140)	(3,815)
Unfunded Clean-up Costs Liability		61	61
Allowance for Subsidy		(3,097)	(3,097)
Subsidy re-estimates		(577)	(577)
Total	\$ (2,243)	\$ 12,057	\$ 9,814

Statement of Financing lines FY 2003:	Superfund	All Other Funds	Combined Total
Components requiring or generating resources in future periods:			
Increase in annual leave liability	\$ 1,088	\$ 5,647	\$ 6,735
Increases in environmental liabilities		(3,276)	(3,276)
Increase in workers compensation costs	246	4,591	4,837
Total	\$ 1,334	\$ 6,962	\$ 8,296

Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items

Unfunded Annual Leave Liability	\$ 1,088	\$ 5,888	\$ 6,976
Unfunded Contingent Liability		(2)	(2)
Unfunded Workers Compensation Liability	7	191	198
Actuarial Workers Compensation Liability	239	4,400	4,639
Subsidy Payable to Treasury		(371)	(371)
Unfunded Clean-up Costs Liability		(3,274)	(3,274)
Allowance for Subsidy		201	201
Subsidy re-estimates		(71)	(71)
Total	\$ 1,334	\$ 6,962	\$ 8,296

Note 30. Costs Not Assigned to Goals

FY 2004's Statement of Net Cost by Goal has \$18.2 million in gross costs not assigned to goals. This amount is comprised of decreases of \$5.7 million in unfunded cleanup costs, \$5.6 million in overhead costs, \$27.0 million in other unfunded expenses and \$2.9 in subsidy expense; offset by increases of \$13.8 million in

undistributed federal payroll costs, \$3.7 million in depreciation expense, \$40.1 million in operating expenses, and \$1.8 million change in actuarial liability.

FY 2003's Statement of Net Cost by Goal has \$12.8 million in gross costs not assigned to goals. This amount is comprised of decreases of \$3.3 million in environmental cleanup costs, \$1.4 million in bad debt expenses, and \$1.2 million in capitalized overhead charges; offset by increases of \$0.4 million in undistributed federal payroll-related costs, \$3.8 million in depreciation expenses not assigned, \$0.2 million in imputed costs, \$0.3 million in other unfunded expenses, and \$14.0 million in operating program expenses.

Note 3l. Transfers-In and Out, Statement of Changes in Net Position

APPROPRIATION TRANSFERS, IN/OUT:

For FYs 2004 and 2003, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of nonexpenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Detail of the Appropriation Transfers on the Statement of Changes in Net Position and a reconciliation with the Statement of Budgetary Resources follow:

Fund/Type of Account	Superfund FY 2004	Superfund FY 2003	All Others FY 2004	All Others FY 2003
GSA Building Fund			(1,538)	
Appalachian Regional Commission			60	
EPM	\$ _____	\$ _____	\$ 1,630	\$ 4,550
Total Appropriation Transfers	\$ _____	\$ _____	\$ 152	\$ 4,550
Net Transfers from Invested Funds	1,256,790	1,283,223	75,552	71,843
Transfers to Other Agencies	(5,157)	(5,155)		
Allocations Rescinded	7,463	8,274	448	470
Total of Net Transfers on Statement of Budgetary Resources	\$ 1,259,096	\$ 1,286,342	\$ 76,152	\$ 76,863

TRANSFERS IN/OUT WITHOUT REIMBURSEMENT, BUDGETARY:

For FY 2004 and 2003, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers to or from other federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. Detail of the transfers-in and transfers-out, expenditure and non-expenditure, follows:

Type of Transfer/Funds	Superfund FY 2004	Superfund FY 2003	All Others FY 2004	All Others FY 2003
Transfers-in(out), expenditure, Superfund to S&T fund	\$ (44,433)	\$ (85,608)	\$ 44,433	\$ 85,608
Transfers-in(out), expenditure, Superfund to OIG fund	(13,136)	(12,659)	13,136	12,659
Transfers-out, nonexpenditure, from Superfund to other federal agencies	(5,157)	(5,155)		
Transfer-out, expenditure, to Superfund Special Accounts		(9,642)		
Transfers-out, nonexpenditure, from Treasury trust fund to CDC	(30,763)	(80,200)		
Transfers-in, nonexpenditure, Oil Spill			16,113	15,480
Transfer-in(out), cancelled funds	5,903	2,133	(5,903)	(2,133)
Total Transfers in(out) without Reimbursement, Budgetary	\$ (87,586)	\$ (191,131)	\$ 67,779	\$ 111,614

TRANSFERS IN/OUT WITHOUT REIMBURSEMENT, OTHER FINANCING SOURCES:

For FYs 2004 and 2003, Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of transfers of property, plant and equipment between EPA funds and transfers of negative subsidy to a special receipt fund for the credit reform funds. The amounts reported on the Statement of Changes in Net Position are as follows:

Type of Transfer/Funds	Superfund FY 2004	Superfund FY 2003	All Others FY 2004	All Others FY 2003
Transfer-in(out) of property, between Superfund and EPM	\$ (1)	\$ 84	\$ 1	\$ (84)
Transfers of negative subsidy, transfer-in paid and funded in year following transfer-(out)			(436)	371
Total Transfers in(out) without Reimbursement, Budgetary	\$ (1)	\$ 84	\$ (435)	\$ 287

Note 32. Imputed Financing

In accordance with SFFAS No. 5, "Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2004 were \$19.7 million and \$106.3 million for Superfund and All Other Funds, respectively. For FY 2003, the estimates for Superfund and All Other Funds were \$17.8 million and \$103.2 million, respectively.

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments on behalf of the agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2004 entries for Judgment Fund payments for Superfund and All Other Funds totaled \$23.6 thousand and \$2.8 million, respectively. For FY 2003, entries for Judgment Fund payments for Superfund and All Other Funds totaled \$2.2 million and \$5 million, respectively.

Note 33. Payroll and Benefits Payable

Payroll and benefits payable to EPA employees for the years ending September 30, 2004 and 2003, consist of the following:

FY 2004 Payroll and Benefits Payables	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund—Current			
Accrued Funded Payroll and Benefits	\$ 5,307	\$	\$ 5,307
Withholdings Payable	4,059		4,059
Employer Contributions Payable—TSP	282		282
Other Post-employment Benefits Payable	3		3
Accrued Unfunded Annual Leave		22,044	22,044
Total—Superfund—Current	\$ 9,651	\$ 22,044	\$ 31,695
All Other Funds—Current			
Accrued Funded Payroll and Benefits	\$ 24,538	\$	\$ 24,538
Withholdings Payable	18,712		18,712
Employer Contributions Payable—TSP	1,301		1,301
Other Post-employment Benefits Payable	33		33
Accrued Funded Leave, WCF	320		320
Accrued Unfunded Annual Leave		104,147	104,147
Total—All Other Funds—Current	\$ 44,904	\$ 104,147	\$ 149,051

FY 2003 Payroll and Benefits Payables	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund—Current			
Accrued Funded Payroll and Benefits	\$ 4,097	\$	\$ 4,097
Withholdings Payable	3,007		3,007
Employer Contributions Payable—TSP	197		197
Other Post-employment Benefits Payable	3		3
Accrued Unfunded Annual Leave		23,735	23,735
Total—Superfund—Current	\$ 7,304	\$ 23,735	\$ 31,039
All Other Funds—Current			
Accrued Funded Payroll and Benefits	\$ 17,645	\$	\$ 17,645
Withholdings Payable	14,366		14,366
Employer Contributions Payable—TSP	940		940
Other Post-employment Benefits Payable	33		33
Accrued Funded Leave, WCF	320		320
Accrued Unfunded Annual Leave		109,487	109,487
Total—All Other Funds—Current	\$ 33,304	\$ 109,487	\$ 142,791

Note 34. Other Adjustments, Statement of Changes in Net Position

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellations of funds that expired five years earlier. These amounts affect Unexpended Appropriations for All Other Funds.

	FY 2004	FY 2003
Rescissions to General Appropriations	\$ 49,105	\$ 48,147
Canceled General Authority	<u>19,463</u>	<u>23,719</u>
Total Other Adjustments	\$ <u>68,568</u>	\$ <u>71,866</u>

Note 35. Nonexchange Revenue, Statement of Changes in Net Position

The Nonexchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for FYs 2004 and 2003 consists of the following items:

FY 2004	Superfund	All Others	Combined Total
Interest on Trust Fund Investments	\$ 27,380	\$ 66,762	\$ 94,142
Tax Revenue, Net of Refunds	867	188,997	189,864
Fines and Penalties Revenue	1,992	(19)	1,973
Special Receipt Fund Revenue	<u> </u>	<u>13,746</u>	<u>13,746</u>
Total Nonexchange Revenue	\$ <u>30,239</u>	\$ <u>269,486</u>	\$ <u>299,725</u>

FY 2003	Superfund	All Others	Combined Total
Interest on Trust Fund Investments	\$ 48,945	\$ 64,447	\$ 113,392
Tax Revenue, Net of Refunds*	(99,355)	184,477	85,122
Fines and Penalties Revenue	718		718
Special Receipt Fund Revenue	<u> </u>	<u>11,591</u>	<u>11,591</u>
Total Nonexchange Revenue	\$ <u>(49,692)</u>	\$ <u>260,515</u>	\$ <u>210,823</u>

* In FY 2003 the Superfund trust fund refunded \$99,355 thousand in previously accrued corporate environmental taxes.

Note 36. Superfund Trust Fund Balances

In FY 2004, the EPA received an appropriation for Superfund of \$1,257.5 million. Treasury's Bureau of Public Debt (BPD), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BPD does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2004 and 2003, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of \$2,402.1 million and \$2,599.7 million, respectively.

During FY 2004 and 2003, the Superfund Trust Fund revenue from cost recoveries and investment interest was less than anticipated. In addition, in FY 2003 the Internal Revenue Service issued approximately \$99.4

million in corporate net tax refunds that were previously deposited in the Trust Fund. Due to these circumstances, the amount appropriated to EPA for Superfund activities exceeded the assets available for appropriation in the Trust Fund by \$7.6 million and \$82.7 million at the end of FY 2004 and 2003, respectively. The Agency expects the Trust Fund to continue to receive revenues from cost recoveries and investment interest. In EPA's view the shortfall will be covered by the collection of cost recoveries and receipt of interest income to the Trust Fund over time. This is evidenced by FY 2004's shortfall reduction of \$75.1 million from the shortfall at the end of FY 2003.

Environmental Protection Agency Required Supplemental Information

As of September 30, 2004

(Dollars in Thousands)

(Unaudited)

I. Deferred Maintenance

The EPA classifies tangible property, plant, and equipment as follows: (1) EPA-Held Equipment, (2) Contractor-Held Equipment, (3) Land and Buildings, and, (4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

2. Intragovernmental Assets

Intragovernmental amounts represent transactions between all federal departments and agencies and are reported by trading partner (entities that EPA did business with during FY 2004).

Trading Partner Code	Agency	<u>Investments</u>		<u>Accounts Receivable</u>		<u>Other Assets</u>	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
4	Government Printing Office					12	701
11	Executive Office of the President				123		
12	Department of Agriculture			214	13		
13	Department of Commerce				912	4	67
14	Department of Interior			13,243	(168)		
15	Department of Justice			102	5	58	
17	Department of the Navy			99	316		
18	U. S. Postal Service			166			553
19	Department of State			(274)	(41)		
20	Department of the Treasury	2,217,334	2,317,164	56	103		
21	Department of the Army			9,840	233		
31	Nuclear Regulatory Commission			2	1		
45	Equal Employment Opportunity Commission				(95)		
47	General Services Administration			(3)	380		
49	National Science Foundation				36		
57	Department of the Air Force			11	8		
61	Consumer Product Safety Commission				8		
64	Tennessee Valley Authority				(5)		
68	EPA (between Superfund and All Others)				73,709	6,749	
69	Department of Transportation			(18)	3,948		
70	Department of Homeland Security			(2)	4,273		
71	Overseas Private Investment Corporation				(13)		
72	Agency for International Development				602		
75	Department of Health and Human Services			288	1,119		
80	National Aeronautics and Space Administration				175		
86	Department of Housing and Urban Development				192		
89	Department of Energy			(62)	562		
95	Independent Agencies				(26)	(58)	
96	US Army Corps of Engineers			126	1,497		
97	US Department of Defense			924	537		
99	Treasury General Fund				443		
0	Unassigned			2,500	420	16	(33)
Total		\$ 2,217,334	\$ 2,317,164	\$ 27,212	\$ 89,267	\$ 6,781	\$ 1,288

3. Intragovernmental Liabilities

Trading Partner Code	Agency	<u>Investments</u>		<u>Accrued Liabilities</u>		<u>Other Liabilities</u>	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
3	Library of Congress			16	168		(54)
4	Government Printing Office			38	1,163	(9)	1,145
5	General Accounting Office					(367)	(1)
10	The Judiciary						(18)
11	Executive Office of the President				22		16
12	Department of Agriculture			414	854	2,285	1,254
13	Department of Commerce	(1,702)		295	2,223		(1,033)
14	Department of Interior	(96)		2,463	3,188	49	937
15	Department of Justice	617		8,444	50	571	(2,971)
16	Department of Labor	1,609		112	446	1,569	3,869
17	Department of the Navy	351		(40)	4	1,814	118
18	United States Postal Service				322	14	(216)
19	Department of State				100		(20)
20	Department of the Treasury			153	140	143	22,004
21	Department of the Army			27		3,278	(17)
24	Office of Personnel Management			112	725	1,412	6,953
31	US Nuclear Regulatory Commission			6	11		
33	Smithsonian Institution			2	37		(26)
36	Dept. of Veterans Affairs			176	128		(1,051)
45	EEOC				29		
47	General Services Administration			19	12,301	10,775	(12,147)
49	National Science Foundation				113		26
57	Department of the Air Force					9,701	
59	Nat'l Foundation on Arts and Humanities						
64	Tennessee Valley Authority				95		70
68	EPA (between Superfund and All Others)	69,793		3,916			6,749
69	Department of Transportation			4,895	133		11,112
70	Department of Homeland Security	14,428		1,542	65		(851)
72	Agency for International Development				3		
73	Small Business Administration				17		100
75	Department of Health and Human Services	11,078		1,071	6,459		6,065
80	National Aeronautics and Space Administration			22	232		(8)
86	Department of Housing and Urban Development						231
89	Department of Energy			459	3,739	5	273
93	Federal Mediation Service				8		
95	Independent Agencies				1,561	1,460	3,019
96	US Army Corps of Engineers	1,659	189	13,403	1,038		50
97	Office of the Secretary of Defense	(351)		207	1,238	7,269	(1,475)
99	Treasury General Fund	6,081				506	2,768
0	Unassigned	(786)	17	348	774	(2,723)	247
Total		\$ 102,681	206	\$ 38,100	37,386	\$ 37,752	47,118

For All Other Funds remaining intragovernmental liabilities, \$24,101 thousand in Debt is assigned to the Department of the Treasury (trading partner Code 20), and \$52,216 thousand in Custodial Liability is assigned to the Treasury General Fund (trading partner Code 99).

EPA has confirmed the year-end intragovernmental fiduciary assets, liabilities, revenue, and expenses with the BPD, the DOL, and the OPM. EPA has also contacted several other federal agencies to confirm non-fiduciary intragovernmental balances for year-end as required.

4. Intragovernmental Revenues and Costs

EPA's intragovernmental earned revenues are not reported by trading partners because they are below OMB's threshold of \$500 million.

	Superfund	All Others
Intragovernmental Earned Revenue	\$ 27,450	\$ 61,475
Associated Costs to generate above Revenue (Budget Functional Classification 304)	\$ 27,450	\$ 61,475

5. Environmental Protection Agency Required Supplemental Information Supplemental Statement of Budgetary Resources—All Other Funds As of September 30, 2004 (Dollars in Thousands)

	STAG	EPM	S & T	FIFRA	LUST	Other	Total
BUDGETARY RESOURCES							
Budgetary Authority:							
Appropriations Received	\$ 3,900,400	\$ 2,293,578	\$ 786,588	\$ 0	\$ 0	\$ 1,373,358	\$ 8,353,924
Borrowing Authority	0	0	0	0	0	5,554	5,554
Net Transfers	0	1,630	0	0	76,000	60	77,690
Other							
Unobligated Balances:							
Beginning of Period	1,400,831	295,696	294,234	890	3,896	103,325	2,098,872
Net Transfers, Actual	0	0	0	0	0	(1,538)	(1,538)
Anticipated Transfers Balance							
Spending Authority—Offsetting Collections							
Earned and Collected	11,684	44,308	6,409	22,220	4	157,494	242,119
Receivable from Federal Sources	0	(10,084)	64	0	0	(5,283)	(15,303)
Change in Unfilled Customer Orders							
Advance Received	0	486	833	4,129	0	7,563	13,011
Without Advance from Federal Sources	0	222	(1,748)	0	0	2,836	1,310
Transfers from Trust Funds	0	0	38,680	0	0	12,986	51,666
Total Spending Auth. from Collections	11,684	34,932	44,238	26,349	4	175,596	292,803
Recoveries of Prior Year Obligations	71,427	12,545	6,382	40	225	5,308	95,927
Temporarily Not Available	0	0	(264)	0	(448)	(78)	(790)
Permanently Not Available	(23,012)	(31,953)	(5,596)	0	0	(10,642)	(71,203)
Total Budgetary Resources	\$ 5,361,330	\$ 2,606,428	\$ 1,125,582	\$ 27,279	\$ 79,677	\$ 1,650,943	\$ 10,851,239

	STAG	EPM	S & T	FIFRA	LUST	Other	Total
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	\$ 3,908,755	\$ 2,223,938	\$ 832,230	\$ 0	\$ 73,390	\$ 1,378,429	\$ 8,416,742
Reimbursable	<u>0</u>	<u>50,565</u>	<u>7,958</u>	<u>24,747</u>	<u>0</u>	<u>178,232</u>	<u>261,502</u>
Total Obligations Incurred	3,908,755	2,274,503	840,188	24,747	73,390	1,556,661	8,678,244
Unobligated Balances:							
Apportioned	1,452,575	257,752	269,948	2,532	6,287	91,061	2,080,155
Exempt from Apportionment							
Unobligated Balances Not Available	<u>0</u>	<u>74,173</u>	<u>15,446</u>	<u>0</u>	<u>0</u>	<u>3,221</u>	<u>92,840</u>
Total Status of Budgetary Resources	\$ <u>5,361,330</u>	\$ <u>2,606,428</u>	\$ <u>1,125,582</u>	\$ <u>27,279</u>	\$ <u>79,677</u>	\$ <u>1,650,943</u>	\$ <u>10,851,239</u>

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS

Obligations Incurred, Net	\$ 3,825,644	\$ 2,227,026	\$ 789,568	\$ (1,642)	\$ 73,161	\$ 1,375,757	\$ 8,289,514
Obligated Balances, Net	8,352,080	640,523	474,874	904	84,307	29,528	9,582,216
— Beginning							
Accounts Receivable	0	12,019	68,396	0	0	6,025	86,440
Unfilled Customer Orders	0	125,112	9,020	0	0	92,052	226,184
—Federal Sources							
Undelivered Orders	(7,753,563)	(637,253)	(519,995)	(1,197)	(76,189)	(105,208)	(9,093,405)
Accounts Payable	<u>(518,598)</u>	<u>(190,062)</u>	<u>(93,122)</u>	<u>(1,151)</u>	<u>(8,817)</u>	<u>(45,884)</u>	<u>(857,634)</u>
Total Outlays	\$ <u>3,905,563</u>	\$ <u>2,177,365</u>	\$ <u>728,741</u>	\$ <u>(3,086)</u>	\$ <u>72,462</u>	\$ <u>1,352,270</u>	\$ <u>8,233,315</u>
Disbursements	\$ 3,917,246	\$ 2,222,158	\$ 789,628	\$ 23,263	\$ 72,466	\$ 1,531,644	\$ 8,556,405
Collections	(11,683)	(44,793)	(60,887)	(26,349)	(4)	(179,374)	(323,090)
Less: Offsetting Receipts	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,276,778)</u>	<u>(1,276,778)</u>
Net Outlays	\$ <u>3,905,563</u>	\$ <u>2,177,365</u>	\$ <u>728,741</u>	\$ <u>(3,086)</u>	\$ <u>72,462</u>	\$ <u>75,492</u>	\$ <u>6,956,537</u>

6.
Environmental Protection Agency
Required Supplemental Information
Working Capital Fund—Supplemental Balance Sheet
For the Year Ended September 30, 2004
(Dollars in Thousands)

Unaudited

ASSETS

Intragovernmental	
Fund Balance With Treasury	\$ 53,560
Accounts Receivable, Net Federal	24,233
Other	<u>555</u>
Total Intragovernmental	\$ 78,348
General Property, Plant and Equipment, Net	16,693
Other Non Federal Assets	<u>53</u>
Total Assets	\$ <u>95,094</u>

LIABILITIES

Intragovernmental	
Accounts Payable & Accrued Liabilities, Federal	\$ 1,378
Other Federal Liabilities	<u>30,413</u>
Total Intragovernmental	\$ 31,791
Accounts Payable & Accrued Liabilities, Non Federal	24,969
Payroll and Benefits Payable Non Federal	1,451
Capital Lease Liability	<u>6,727</u>
Total Liabilities	\$ <u>64,938</u>

NET POSITION

Cumulative Results of Operations	\$ <u>30,156</u>
Total Net Position	<u>30,156</u>
Total Liabilities and Net Position	\$ <u>95,094</u>

6.
Environmental Protection Agency
Required Supplemental Information
Working Capital Fund—Supplemental Statement of Net Cost
For the Year Ended September 30, 2004
(Dollars in Thousands)

Unaudited

COSTS

Intragovernmental	\$ 70,739
With the Public	<u>71,923</u>
Total Costs	\$ 142,662
Less:	
Earned Revenues, Federal	140,244
Earned Revenues, Non Federal	0
Total Earned Revenues	\$ <u>140,244</u>

NET COST OF OPERATIONS**\$ 2,418**

6.

Environmental Protection Agency
Required Supplemental Information**Working Capital Fund—Supplemental Statement of Changes in Net Position**

For the Year Ended September 30, 2004

(Dollars in Thousands)

	Unaudited
Net Position—Beginning of Period	\$ 31,770
Prior Period Adjustments	<u>0</u>
Beginning Balances, as adjusted	\$ 31,770
Other Financing Sources:	
Transfers In/Out	0
Imputed Financing Sources	<u>804</u>
Total Other Financing Sources	\$ 804
Net Cost of Operations	<u>(2,418)</u>
Net Position—End of Period	<u><u>\$ 30,156</u></u>

6.
Environmental Protection Agency
Required Supplemental Information
Working Capital Fund—Supplemental Statement of Budgetary Resources
For the Year Ended September 30, 2004
(Dollars in Thousands)

Unaudited

BUDGETARY RESOURCES

Budgetary Authority:	
Appropriations Received	\$ 0
Borrowing Authority	
Net Transfers	
Other	
Unobligated Balances:	
Beginning of Period	22,324
Spending Authority from Offsetting Collections:	
Earned and Collected	\$ 140,268
Receivable from Federal Sources	0
Change in Unfilled Customer Orders	
Advance Received	7,564
Without Advance from Federal Sources	(2,991)
Transfers from Trust Funds	<u>0</u>
Total Spending Authority from Offsetting Collections	144,841
Recoveries of Prior Year Obligations	1,352
Permanently Not Available	<u>0</u>
Total Budgetary Resources	\$ <u>168,517</u>

STATUS OF BUDGETARY RESOURCES

Obligations Incurred:	
Reimbursable	\$ 163,897
Unobligated Balances:	
Apportioned	4,620
Unobligated Balances Not Available	<u>0</u>
Total Status of Budgetary Resources	\$ <u>168,517</u>

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS

Obligations Incurred, Net	\$ 17,704
Obligated Balances, Net—Beginning of Period	35,457
Accounts Receivable	114
Unfilled Customer Orders from Federal Sources	23,091
Undelivered Orders	(38,710)
Accounts Payable	<u>(33,436)</u>
Total Outlays	\$ <u>4,220</u>
Disbursements	\$ 152,052
Collections	(147,832)
Less: Offsetting Receipts	<u>0</u>
Net Outlays	\$ <u>4,220</u>

6.
Environmental Protection Agency
Required Supplemental Information
Working Capital Fund—Supplemental Statement of Financing
For the Year Ended September 30, 2004
(Dollars in Thousands)

Unaudited

RESOURCES USED TO FINANCE ACTIVITIES:

Budgetary Resources Obligated	
Obligations Incurred	\$ 163,897
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(146,193)</u>
Obligations Net of Offsetting Collections and Recoveries	\$ 17,704
Other Resources	
Transfers In/Out Without Reimbursement, Property	\$ 0
Imputed Financing Sources	<u>804</u>
Net Other Resources Used to Finance Activities	\$ 804
Total Resources Used To Finance Activities	\$ 18,508

RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS

Change in Budgetary Resources Obligated	\$ (10,185)
Resources that Fund Prior Period Expenses	(130)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	0
Resources that Finance the Acquisition of Assets	(10,732)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	<u>0</u>
Total Resources Used to Finance Items Not Part of Net Cost of Operations	\$ (21,047)
Total Resources Used to Finance the Net Cost of Operations	\$ (2,539)

COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD

Components Requiring or Generating Resources in Future Periods	
Increase in Annual Leave Liability	\$ 0
Increase in Exchange Revenue Receivable from the Public	<u>0</u>
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	\$ 0
Components Not Requiring or Generating Resources	
Depreciation and Amortization	\$ 4,933
Revaluation of Assets or Liabilities	0
Other Expenses Not Requiring Budgetary Resources	<u>24</u>
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	\$ 4,957
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	\$ <u>4,957</u>
Net Cost of Operations	\$ <u><u>2,418</u></u>

7.

Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 2004
(Dollars in Thousands)

Investment in the Nation's Research and Development:

Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. The Environmental Protection Agency's (EPA) Office of Research and Development, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across both risk assessment and risk management. Science enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding and technologies we need to detect, abate, and avoid environmental problems. Science provides the crucial underpinning for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, efficient and effective approaches to reducing environmental risks.

Among the Agency's highest priorities are research programs that address the effects of the environment on children's health; the development of alternative techniques for prioritizing chemicals for further testing through computational toxicology; the provision of near-term, appropriate, affordable, reliable, tested, and effective technologies and guidance for potential threats to homeland security; the potential risks of unregulated contaminants in drinking water; the health effects of air pollutants such as particulate matter; and the protection of the nation's ecosystems. For FY 2004, the full cost of the Agency's Research and Development activities totaled over \$673 million. Below is a breakout of the expenses (dollars in thousands):

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Programmatic Expenses	541,117	555,794	559,218	593,295	581,323
Allocated Expenses	59,523	90,039	123,307	106,971	91,675

Investment in the Nation's Infrastructure:

The Agency makes significant investments in the nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program which is being phased out and two State Revolving Fund (SRF) programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of Federal funds, providing more than \$60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

State Revolving Funds: EPA provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the

state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the Federal Government.

The Agency also is appropriated funds to finance the construction of infrastructure outside the Revolving Funds. These are reported below as Other Infrastructure Grants.

The Agency's expenses related to investments in the nation's Water Infrastructure are outlined below (dollars in thousands):

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Construction Grants	55,766	63,344	149,841	15,845	48,948
Clean Water SRF	1,564,894	1,548,270	1,389,048	1,295,394	1,407,345
Safe Drinking Water SRF	588,116	728,921	708,528	842,936	802,629
Other Infrastructure Grants	212,124	282,914	367,259	582,091	341,767
Allocated Expenses	266,299	424,999	576,536	493,349	410,129

Stewardship Land.

The Agency acquires title to certain land and land rights under the authorities provided in Section 104 (j) CERCLA related to remedial clean-up sites. The land rights are in the form of easements to allow access to clean-up sites or to restrict usage of remediated sites. In some instances, the Agency takes title to the land during remediation and returns it to private ownership upon the completion of clean-up. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred.

As of September 30, 2004, the Agency possesses the following land and land rights:

Superfund Sites with Easements	
Beginning Balance	31
Additions	1
Withdrawals	0
Ending Balance	32
Superfund Sites with Land Acquired	
Beginning Balance	25
Additions	2
Withdrawals	2
Ending Balance	25

Human Capital

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the nation's environmental, not economic, capacity.

The Agency's expenses related to investments in the Human Capital are outlined below (dollars in thousands):

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Training and Awareness Grants	49,265	48,697	49,444	47,827	48,416
Fellowships	9,570	11,451	8,728	6,572	7,553
Allocated Expenses	6,472	9,744	12,827	9,808	8,826

8. Environmental Protection Agency Required Supplemental Information For the Year Ended September 30, 2004

Improper Payments Information Act of 2002 (IPIA) Report

I. RISK ASSESSMENTS: After reviewing and sampling disbursements made in the highest risk susceptible inventories, EPA determined that its programs do not have significant erroneous payments, as defined by the IPIA as payments exceeding \$10 million and 2.5% of program payments. The error rates for EPA's largest programs were as follows.

Program	Erroneous Pay	Error Rate
Clean Water and Drinking Water State Revolving Funds	\$10.3 million	.49%

Where erroneous payments exceed \$10 million, each Agency must identify the reasons why its programs are at risk. In addition, the two EPA programs identified above, being former Section 57 programs, require a corrective action plan. EPA prepared corrective action plans for the Clean Water and Drinking Water State Revolving Funds. We also recognize there are areas that require further EPA review. In particular, EPA must:

- Review and enhance internal controls, as needed, in the Agency's overall payment processes,
- As part of the post award process, continue to monitor payments made to sub-recipients,
- Comply with new Performance Accountability Report (PAR) reporting requirements for improper payments, and
- Implement and operate the Agency's audit recovery program.

II. STATISTICAL SAMPLING PROCESS: For the initial action plan submitted to OMB on May 28, 2004, EPA pulled a statistical sample of approximately 300 payments out of a population of 45,000 grant payments. Based on additional instructions from OMB, EPA expanded its initial review to incorporate findings from program and auditor reviews and audits of the two state revolving funds.

III. CORRECTIVE ACTION PLANS: In order to meet OMB's objectives, EPA conducted additional risk assessments by forming four subgroups with expertise in grants, contracts, payroll, and travel/purchase credit cards to review internal controls, identify and measure high risk areas, and develop corrective action plans for each subject area. Planned actions in each of the areas are as follows:

A. Grants: EPA began collecting information on grants management findings to include erroneous payment (i.e., funding is not being utilized for the intended purpose) in calendar year 2004. Based on information in the Grantee Compliance Tracking Systems, EPA will prepare statistical reports on the number of recipients

where erroneous payments were found. In addition, comparisons will be made to the total recipient population to determine if there are particular types of recipients who are more likely to have erroneous payment problems.

The Office of Grants and Debarment will complete an erroneous payment review by February 28, 2005, covering calendar year 2004. This review will identify whether or not "high risk" grant areas exist and will develop, as appropriate, corrective action plans to be implemented in the years ahead.

In FY 2005 EPA will be revising its policy on compliance, review, and monitoring. This policy provides guidance and protocols to EPA headquarters and regional offices on how to conduct advanced monitoring reviews. As part of these revisions, EPA will propose that offices evaluate the extent and nature of grantee monitoring of sub-recipients. For example, how frequently do grantees monitor/evaluate sub-recipients and what have been the results of this monitoring. The expanded monitoring is designed to assist the Agency in expanding its improper payment identification, beyond recipients to sub-recipients. The Agency anticipates the compliance policy changes will be effective starting in calendar year 2006.

B. Contracts: EPA continues to take appropriate action as needed to reduce or eliminate improper payments. The appropriate Contracts Officer Representatives or On Scene Coordinators are notified of all improper payments discovered. In FY 2004, there were 8 improper payments due to an error in the billing number used to retrieve the banking information for a contractor. Billing numbers received on contracts are now verified prior to entering information in Contract Payment System. Keying errors are reviewed by the staff and efforts are made to prevent or detect these types of errors in the future. The problem of credit invoice and refunds processed is closely reviewed to prevent this type of occurrence in the future.

In January 2003, EPA implemented a monthly Improper Payment Report. The report categorizes the number of improper payments per month and provides information on each improper payment including the reason.

In FY 2003, from January through September, EPA found 25 improper payments in the 24,056 payments processed for contracts. For FY 2004, there have been 21 improper payments found as of July 31, 2004, in the 20,417 payments processed. Considering that there is not a full year to compare, the number of improper payments is decreasing. The percentage of proper payments is 99.9%.

Additional actions include the addition of an improper payment review element for the Quality Assurance Review for invoices and the initiation of the Recovery Audit process which is currently underway.

The continued pro-active process of reviewing and implementing changes as needed when an improper payment occurs should continue to reduce the number of improper payments. The Contracts Officer Representatives, On Scene Coordinators or Contracting Officers will continue to be notified of all improper payments that involve their contract. Suggested actions will be provided and if the problem continues, actions will be elevated. Previously documented keying errors are being noted by the staff at EPA to assist in the detection by the initial data entry personnel as well as the sample reviewer and the certifying officer.

C. Commodity Payments: Since no high risk areas have been identified, no corrective action is required. EPA continues to take appropriate action as needed to reduce or eliminate any improper payments. There have been 19 improper payments identified from the 14,772 invoices paid from January through July 2004. Eleven improper payments have been attributed to selection of incorrect vendor codes. The payment and certifying staff have been alerted to this fact and are making an effort to double check all vendor codes to prevent this in the future. Six of the improper payments were identified as duplicate payments on invoices the vendor submitted twice. The edits in Small Purchase Information Tracking System have been enhanced to prevent this in the future. All invoices marked past due are being reviewed to determine if they are duplicate invoices.

A tracking mechanism was put in place in January 2004 to gather improper payment data in anticipation that purchase order payments would be included in the erroneous payment process in 2004. The result of this tracking system provides the data for a monthly Improper Payment Report. The report provides information on each improper payment.

D. Payroll: By December 31, 2004, the Payroll Workgroup will:

1. Review Payroll internal control documentation.
2. Conduct personnel interviews to verify/test whether internal controls are understood and being utilized.

3. Summarize the results of the review of the internal controls.
4. Submit recommendations to reduce improper payments.

Additionally, by the end of the second quarter FY 2005, the workgroup will develop a corrective action plan/best practices.

E. Travel Card/Purchase Card: The Agency will continue to monitor the charge card transactions and employee accounts using the tools described above to ensure that the cards are used in accordance with the Agency policies and procedures.

The Agency will continue to monitor the issuance of purchase cards to ensure that spending limits and span of control are kept to a minimum. The Office of Acquisition Management is in the process of implementing a monitoring program that is to be performed by each of the Senior Resource Officials in the Agency. This program will mandate that each office perform yearly reviews of the purchases made within their program offices. These reviews will ensure the integrity of the purchase card program.

IV. IMPROPER PAYMENT REDUCTION OUTLOOK FY 2004 – FY 2007 (dollars in millions)

PROGRAM	FY 04 OUTLAYS	FY 04 IP %	FY 04 IP \$	FY 05 IP %	FY 06 IP %	FY 07 IP %
Clean Water and Drinking Water Revolving Funds	\$2,105 (est)	.49%	10.3	.45%	.40%	.35%

V. RECOVERY AUDIT PROGRAMS: The Agency has hired a contractor, Business Strategy, Inc (BSI), to conduct the recovery audit. BSI has completed its preliminary interviews as part of the Discovery phase of its work. This involved discussions with key individuals involved in the contract obligation and payment process and individuals knowledgeable in EPA financial systems.

BSI has received data from the Integrated Financial Management System and begun its field work to identify and collect contract overpayments. BSI hopes to complete its fieldwork by the end of the first quarter FY 2005. Once improper payments are identified, EPA will work with BSI to strengthen payment processes and internal controls to prevent further occurrences.

VI. ENSURING MANAGEMENT ACCOUNTABILITY: As previously outlined in the corrective action plans, the Agency is moving to strengthen already strong internal controls in key payment processes. Information on erroneous payments from reviews and audits for the two state revolving funds, our largest grant programs, is reported quarterly to management in both the Office of Water and the Office of the Chief Financial Officer. In all cases action is taken with the appropriate officials to ensure improper payments are recovered and to avoid future improper payments.

VII. INFORMATION SYSTEMS AND INFRASTRUCTURE: The Agency's information systems are sufficient to reduce improper payments to targeted levels.

VIII. STATUTORY AND REGULATORY BARRIERS: Currently, EPA is determining what information exists within our current review process that looks at sub-recipients invoices and financial operations. We will determine to what extent we can gather information from a sample to develop baseline numbers without interfering with current federal/state cooperative relationships.

IX. CONCLUSIONS: In the 1st quarter of FY 2005, we will:

- A. Continue monitoring for improper payments in the two State Revolving Funds;
- B. Research payments to sub-recipient in the two State Revolving Funds; and
- C. Research payments by grantee types to determine if some are more susceptible to creating improper payments.